INSURANCE MARKET REPORT

ESTONIA: NON-LIFE (P&C)

NON-LIFE (P&C)

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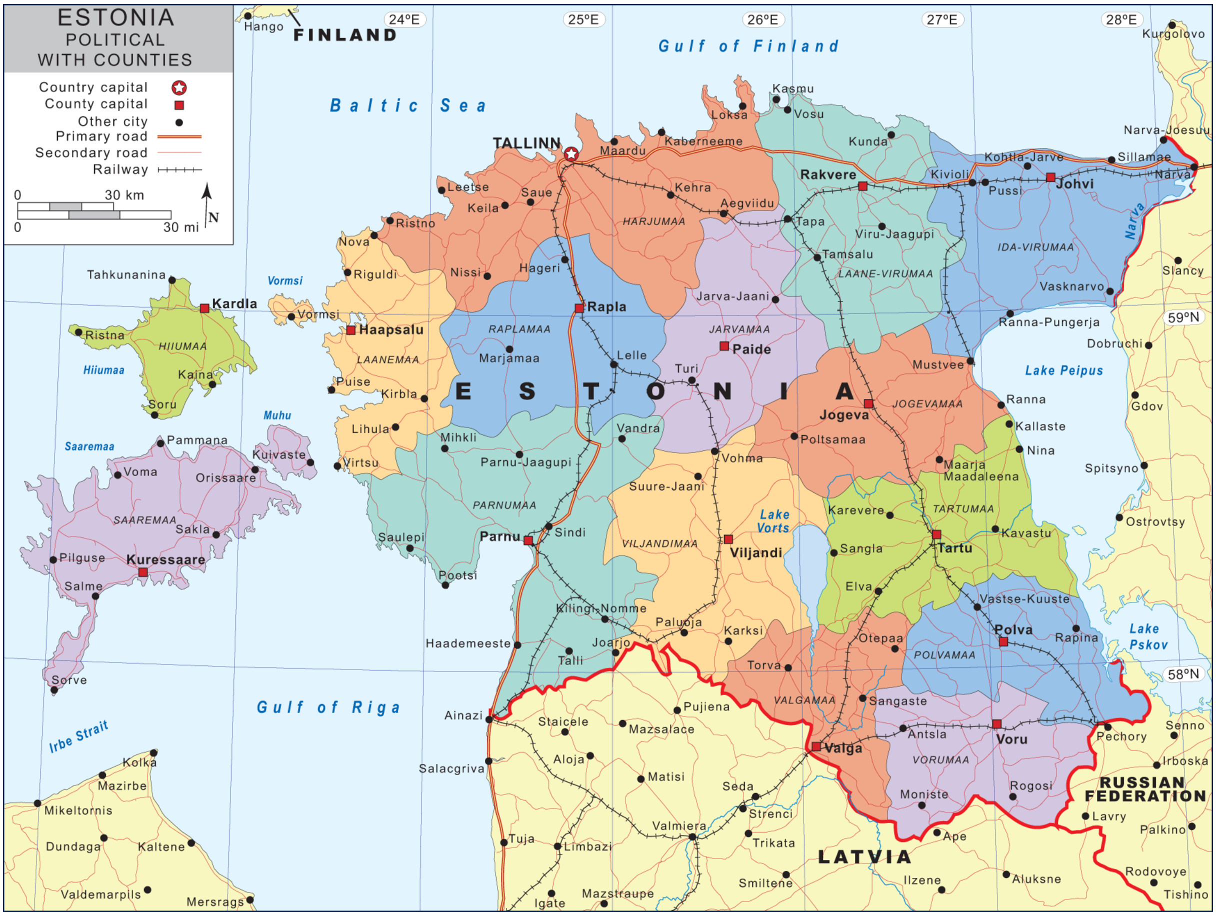
Country Map



ESTONIA
POLITICAL
WITH COUNTIES
Country capital
County capital
Other city
Primary road
Secondary road
Railway
0 30 km
0 30 mi
N
24ºE
25ºE
26ºE
27ºE
28ºE
59ºN
58ºN
FINLAND
Hango
Gulf of Finland
Baltic Sea
Gulf of Riga
Irbe Strait
Lake Peipus
Lake Pskov
Lake Vorts
Narva
ESTONIA
LATVIA
RUSSIAN FEDERATION
TALLINN
Maardu
Kaberneeme
Loksa
Kasmu
Vosu
Kunda
Rakvere
Kiviola
Kohtla-Jarve
Sillamae
Narva-Joesuu
Narva
Johvi
Pussi
Kurgolovo
Leetse
Saue
Keila
Kehra
Aegviidu
Tapa
Viru-Jaagupi
Tamsalu
Ristno
Nova
Riguldi
Nissi
Hageri
HARJUMAA
LAANE-VIRUMAA
IDA-VIRUMAA
Vasknarvo
Slancy
Ranna-Pungerja
Dobruchi
Mustvee
Jarva-Jaani
Rapla
RAPLAMAA
Marjamaa
Lelle
Turi
Paide
JARVAMAA
Vormsi
Haapsalu
LAANEMAA
Puise
Kirbla
Tahkunanina
Kardla
Ristna
HIIUMAA
Hiiumaa
Kaina
Soru
Muhu
Lihula
Mihkli
Vandra
Jogeva
JOGEVAMAA
Poltsamaa
Ranna
Kallaste
Nina
Gdov
Spitsyno
Saaremaa
Pammana
Kuivaste
Virtsu
Voma
Orissaare
Parnu-Jaagupi
Vohma
Maarja Maadaleena
Suure-Jaani
PARNUMAA
SAAREMAA
Sakla
Saulepi
Parnu
Sindi
VILJANDIMAA
Viljandi
Karevere
TARTUMAA
Kavastu
Ostrovtsy
Tartu
Sangla
Pilguse
Kuressaare
Salme
Pootsi
Elva
Vastse-Kuuste
Kilingi-Nomme
Paluoja
Karksi
Otepaa
Polva
Rapina
POLVAMAA
Haademeeste
Joaro
Talli
Torva
Sorve
VALGAMAA
Sangaste
Ainazi
Pujiena
Staicele
Mazsalace
Antsla
Voru
VORUMAA
Pechory
Senno
Irboska
Valga
Aloja
Salacgriva
Matisi
Seda
Moniste
Rogosi
Lavry
Strenci
Valmiera
Trikata
Ape
Palkino
Kolka
Mazirbe
Mikeltornis
Dundaga
Kaltene
Tuja
Limbazi
Smiltene
Ilzene
Aluksne
Rodovoye
Tishino
Valdemarpils
Mersrags
Igate
Mazstraupe

Map of the Area

Market Developments

- Regulations to implement the EU's *Solvency II* directive have been introduced in the latest version of the *Insurance Activities Act*, in force from 1 January 2014.
- A new, fully revised version of the insurance law is being drafted for introduction from 1 January 2016 and will incorporate changes required by the EU's new *Insurance Mediation Directive* (IMD2).
- A draft of a new law on motor third party liability is under consideration in Estonia's parliament.
- The effects of the economic downturn on the Estonian insurance market are continuing to recede. Insurance market premium income in 2012 was up almost 6.5%.
- The MTPL market remains very competitive in 2014 but poor figures reported by insurers for MTPL in 2013 have led observers to suggest that the market should now stabilise and perhaps edge up.
- To satisfy EU requirements with regard to patients' rights, Estonia is looking to introduce medical malpractice cover. Although draft legislation has been prepared, the government has decided to slow the process and re-think the proposals. In January 2014 no firm timetable was in place for its introduction.
- In early 2014 some observers declared that there was increasing pressure for compulsory workers' compensation insurance to be introduced and that it was merely a matter of time. No material progress is, however, expected before the next general election in 2015.
- Polish insurer PZU has entered the market as a branch operation and in the near future Austrian insurer Compensa is looking to join it.

The Future

The economy will continue as the major factor influencing the insurance market and with recovery underway, corporate property and motor business will continue to grow but ongoing competition will keep rates depressed, absent any major claims.

Key Facts

Growth in the non-life, life, and PA and healthcare markets is shown below.

New statistical information may have been included in the appendices.

- The rate of exchange used in this report is EUR 0.74 : USD 1, EUR 1 : USD 1.35. For previous years the average annual rate for the year in question has been used. Further details are provided within the Currency and Exchange Control subsection in the Politics and the Economy section of this report.
- Estonia has a land area of 17,452 square miles (45,200 square kilometres) and is the smallest and most northerly of the three Baltic states. Its population was 1.28 million in January 2013, of which approximately two-thirds are Estonian and around a quarter native Russian. The population is declining, having peaked at 1.57 million in 1990.
- The land is mostly flat with a maximum elevation of 1,038 feet (316 metres). Around 40% of the terrain is forested and there are numerous lakes, of which Lake Peipsi is the largest. There are no major rivers but one-fifth of the land area is marsh or bog.
- For most of its history Estonia has been controlled by foreign powers including Denmark, Sweden and Russia. During a brief period of independence which began in 1919, Estonia achieved similar living standards to those of Scandinavian countries: nevertheless in the aftermath of World War 2 the country came under foreign control once again, as it was absorbed into the Soviet Union. Independence was declared in 1991 following the break-up of the Soviet Union and in 2004 Estonia became a member of both the European Union (EU) and of Nato.
- General elections were held in March 2011, granting another term in government to the centre-right coalition led by the pro-business Reform Party with the Pro Patria and Res Publica Union, and headed by the prime minister. The coalition is expected to continue its orthodox economic policies for the duration of the next term.

Key Facts

- Following independence in 1991 Estonia embraced market reforms and adopted orthodox neoliberal policies in its transition to a market economy. The economy later registered impressive growth rates, peaking at 10% in 2006 and earning the country its "Baltic Tiger" epithet. The economy was expected to expand by an average of 3.1% through 2015 due to higher public sector employment, rising minimum wages and productivity gains in the private sector. Inflation was expected to average between 3.2% and 3.8% over 2014 and 2015, reflecting greater access to credit and low interest rates.
- Premium written by non-life insurers in 2012 totalled EUR 230.27mn (USD 295.86mn), up almost 6.5% on 2012. Figures for three quarters of 2013 suggest the full year will show further growth of a similar amount. These figures undervalue the size of the market, however, as some risks are placed abroad on a direct basis or through brokers.
- In January 2014 there were 12 non-life insurers. Most companies are branches, are foreign-owned or have a significant foreign shareholding (mostly Nordic), and often form part of pan-Baltic and pan-Nordic insurance groups. The leading non-life companies are If Eesti, ERGO, Codan (RSA), Swedbank Vara, Seesam and Salva.
- Non-admitted insurance is permitted; the local supervisory body recognises that clients seeking insurance cover outside Estonia on their own initiative are free to do so, but do so at their own risk.
- There are no barriers to foreign insurers establishing a company in Estonia and foreign-owned companies now dominate the market.
- There are no statutory tariffs in force in Estonia.
- Distribution is largely carried out by tied agents but a number of brokers have taken an important share of the major industrial/commercial and motor/householders' accounts.
- Estonia is not particularly exposed to natural perils, however, the most severe storms in 40 years (Hurricane Erwin) battered Estonia in January 2005 causing flooding and damage to property. The total loss is put at EEK 200mn (USD 15.89mn) but with only 20% of this attributed to wind damage; 80% was caused by stormflood.
- Motor third party liability insurance was made compulsory in 1992. Other compulsory classes include aviation liability and professional liability for a range of professions.
- A law on compulsory workers' compensation insurance was expected to come into force in 2003 but has been postponed, partly due to political difficulties over responsibility for prior industrial diseases exposure; no date has yet been set for its introduction.

General Country Information

Country Indicators

Demographic and economic data are shown below, with projections for the final two years.

Indicator	2011	2012	2013	2014	2015
Total population (mn)	1.29	1.29	1.30	1.30	1.30
Total GDP (USD mn)	22,542.96	22,041.84	24,044.05	24,745.22	26,144.30
Real GDP growth (%)	9.54	2.94	1.10	3.20	3.10
Inflation (%)	4.98	3.93	2.90	3.20	3.80
Unemployment (%)	12.50	10.14	10.90	10.70	10.50

Source: IMF and EIU

History

Early History

1154	The oldest written record of Estonia was made by the geographer al-Idrisi.
1219	Tallinn was founded by the Danes following their conquest of north Estonia.
1227	The rest of Estonia was conquered by the Germans and divided into small feudal states: the Germans comprised an influential gentry class.
1500 (circa)	St Olaf's church, one of the most imposing Gothic churches of mediaeval Europe, reached a height of 522 feet (159 metres) and remained the highest building ever built until the end of the 19th century.
1558 to 1629	Estonia was invaded by Russia's Ivan the Terrible and the Livonian Wars ensued. Continental Estonia became Swedish territory in 1625.
1632	The Swedes founded Tartu University.
1710 to 1714	The Great Northern War took place between Russia and Sweden. Russia conquered Finland and the Baltic states and 80,000 to 100,000 of the population of Tallinn died of starvation or plague.
1721	Sweden formally surrendered Estonia to Russia by the Treaty of Nystad.
1870	Tallinn became a major port following the construction of the St Petersburg-Tallinn railway.

20th/21st Century

1905	The popular uprising in Russia spread to Estonia.
1914 to 1917	World War 1 led to popular discontent throughout the Russian Empire.
1917	Following the Russian Revolution, the provisional government in Russia passed a bill on Estonian self-government and the first Estonian parliament met in July. In October the Bolsheviks overthrew the provisional government in Russia and a Communist government was set up in Tallinn.
1918	In March the Treaty of Brest-Litovsk ceded Estonia to Germany. In November Germany surrendered to the Allies and Estonian independence was declared. Soviet attacks were repelled with assistance from Finnish and Swedish volunteers and the British fleet.
1919	Independence was secured in February.
1920	A peace treaty, the Treaty of Tartu, was signed with Soviet Russia. Estonian land was taken from German nobility and distributed to the peasantry.

1935	Despite threats from both Russia and Germany, Estonia prospered, achieving GDP growth at Nordic levels.
1940	Estonia was occupied by the Soviet Union following the partition of Poland with Germany, ending 22 years of independence.
1941	Germany invaded and occupied the country. Most of Estonia's 4,000 Jews fled to Russia.
1944 to 1952	Estonia was re-occupied by the Soviet Union: the population had fallen from 1.14 million to 850,000 during the war years. Agriculture was forcibly collectivised, resulting in an estimated 60,000 deaths, and mass deportations. During the night of 9 March 1949, there was an attack on Tallinn in which 20,000 lost their homes, 463 were killed, 659 were wounded and 53% of the town's living quarters were destroyed.
1953	The Forest Brothers, a partisan rebel movement, was crushed.
1953 to 1964	With the industrialisation of the Baltic states, increasing numbers of Russian and Ukrainian workers came to live in Estonia.
1985 to 1991	Through the policies of "perestroika" (reform) and "glasnost" (openness), liberalisation and democracy grew in the Soviet Union, and included the expansion of the market economy.
1988	In the summer about one-third of the Estonian population gathered in Tallinn to sing banned nationalist music, the so-called "Singing Revolution". In November the Estonian Soviet parliament passed a declaration of autonomy.
1989	In November the Soviet Union ceded economic autonomy to Estonia.
1991	A referendum supported independence. After the attempted coup in Moscow in August, Estonia restored its independence on 20 August, and this was recognised by the Soviet Union in September.
1992	A new constitution was adopted by referendum. The Fatherland Party, led by Mart Laar, won the parliamentary elections.
1994	Ex-Soviet forces left Estonia on 31 August.
2003	In the March general election, Juhan Parts became the youngest prime minister in Europe at the age of 36.
2004	Estonia joined Nato in March and became a member of the European Union on 1 May.
2005	In March Prime Minister Parts resigned following a vote of no confidence in the justice minister, Ken-Marti Vaher, over the latter's tough anti-corruption programme.
	In April the Reform Party's Andrus Ansip was confirmed as the new prime minister.
	In May Estonia and Russia signed a treaty delimiting their shared border. The following month the treaty was ratified by parliament, which defied warnings from Russia by introducing an amendment which referred to Soviet occupation. Russia retaliated by withdrawing from the treaty.
2007	In March Estonia became the first country to allow internet voting for national parliamentary elections. These elections were won by the Reform Party by a narrow margin.
	In April a contentious Red Army war memorial was removed from Tallinn, leading to serious rioting in the capital and threats from Russia of repercussions. Estonia also came under a series of "cyber attacks" from an unknown source, purportedly based in Russia.
2011	In January Estonia adopted the euro as its currency.
	In March general elections were held, granting another term in government to the centre-right coalition led by the Reform Party with the Pro Patria and Res Publica Union; in August, Toomas Ilves was elected to a second term as president.

General Country Information

Geographic Description

Country Name
The Republic of Estonia.

The country is usually known by its short name, Estonia, or locally as Eesti.

Frontiers and Coastline
To the north of the country is the Gulf of Finland: the coastline extends to Narva Bay, where the Russian border begins. Russia lies to the east and the boundary is formed by the River Narva. South of Estonia is Latvia, and to the west are the Gulf of Riga and the Baltic Sea.

Approximately 10% of the total land area is made up of islands in the Gulf of Finland, the largest of which are Saaremaa and Hiiumaa. The coastline of Estonia stretches for more than 2,298 miles (3,700 kilometres).

Land Area
Estonia has a land area of 17,452 sq miles (45,200 sq km), and is the smallest and most northerly of the three Baltic states.

Administration
The country is divided into 15 counties. These counties are concerned solely with administrative matters and have no autonomy in setting insurance conditions.

There are 39 towns (urban municipalities) and 202 rural municipalities.

Topography
The land is flat, and western Estonia has an elevation of less than 164 ft (50 m). Further eastwards the land rises to a maximum elevation of around 1,038 ft (316 m) at Suur Munamagi (the "big egghill") in the south-east. Suur Munamagi is the highest point in all the Baltic states and both Russia and Latvia can be seen from its peak.

Some 40% of the country is forested, with equal proportions of pine forest and mixed deciduous forest (mostly birch and juniper). There are several lakes, of which Lake Peipsi, at 1,365 sq miles (3,535 sq km) is the largest, forming part of the Russian border and the source of the River Narva. Lake Peipsi is the largest lake in the Baltic region and fourth largest lake in Europe by area but is only 49 ft (15 m) deep. At 104 sq miles (270 sq km), Lake Vortsjarv is the second largest lake in the Baltic region and is only 15 ft (5 m) deep. Approximately one-fifth of Estonia's land area is marsh and bog land.

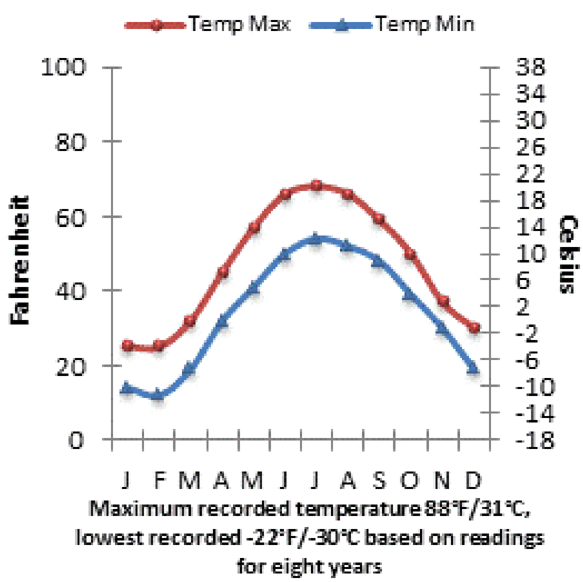
Climate

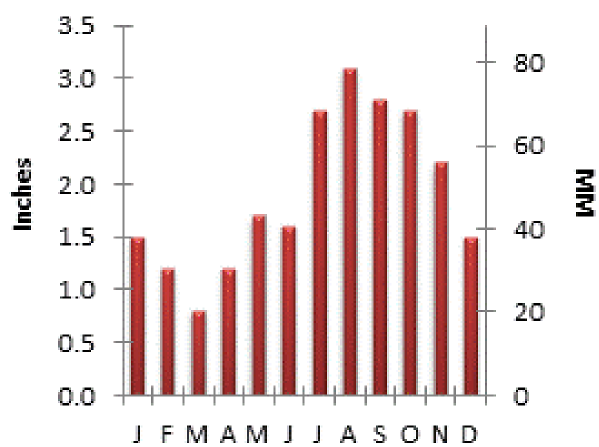
Summers (May to September) are temperate, averaging a daytime high of 14ºC to 20ºC. The winters are cold, with temperatures typically below -4ºC. Snowfall usually begins in November and there is permanent snow cover between December and late March. On the coast, snow cover has historically been from January to mid-March, but recent years have seen milder winters and little permanent snow cover. July to October is the wettest part of the year, with rainfall of around 2.4 inches (60 millimetres). Annual precipitation ranges from 20 inches to 23.6 inches (500 mm to 600 mm) on the coast, to 27.6 inches to 35.4 inches (700 mm to 900 mm) in the east.

The waters between mainland Estonia and the islands are usually frozen from January to March. The Gulf of Finland freezes occasionally.

The average daily temperatures and the monthly rainfall for Tallinn, at latitude 59º25'N 24º48'E and 144 feet (44 metres) above sea level, are shown below.

Tallinn





Population and Demographic Trends

Population

The last decennial census in 2011 recorded a population total of 1.29 million, reflecting a 5.5% decrease from the previous census in 2000. The drop was attributed in part to ageing and emigration for employment. The population was 69.5% urban in 2011. In 2013, 69.87% of the population was Estonian; 25.22% was Russian; 1.74% was Ukrainian; 0.96% was Belorussian; and 0.57% was Finnish. The balance was comprised of other ethnic groups, including Lithuanians and Germans. The national statistical office estimated the population on 1 January 2013 at 1.28 million, trending slightly below external estimates.

The UN Population Division (UNPD) forecasts that the population will continue to shrink, falling to 1.12 million in 2050. Estonia's population peaked in 1990, when the country claimed a total of 1.57 million residents: the subsequent decline coincided with the restoration of Estonia's independence and the traumatic social and economic upheaval that accompanied the transition to a market economy and dismantling of Soviet institutions. This lead to a fall in living standards including healthcare, which affected life expectancy.

Although conditions have since improved, the Estonian economy has suffered as qualified workers have moved to other countries which offer higher wages, particularly in the wake of the recent financial crisis.

Total population figures are shown below.

Year	Population (mn)
2013	1.30
2012	1.29
2011	1.29
2005	1.33
2000	1.37
1990	1.57
1980	1.47
1970	1.36
1960	1.22

Source: United Nations, IMF and EIU

Projected total population figures are shown below.

Year	Population (mn)
2050	1.12
2040	1.16
2030	1.21
2020	1.26

Source: United Nations

Birth and death rates per '000 are shown below.

Year	Birth rate	Death rate	Rate of natural increase
2010 to 2015	10.8	13.6	(2.8)
2005 to 2010	11.4	13.0	(1.6)
2000 to 2005	9.7	13.6	(3.9)
1995 to 2000	9.1	13.9	(4.8)
1990 to 1995	11.2	13.9	(2.7)
1985 to 1990	15.6	12.1	3.5
1980 to 1985	15.3	12.3	3.0
1975 to 1980	15.1	12.1	3.0
1970 to 1975	15.7	11.2	4.5

Source: United Nations

Infant mortality rates per '000 live births are shown below.

Year	Infant mortality rate
2010 to 2015	4.2
2005 to 2010	4.8
2000 to 2005	7.4
1995 to 2000	12.0
1990 to 1995	16.3
1985 to 1990	18.3
1980 to 1985	20.3
1975 to 1980	21.9
1970 to 1975	21.1

Source: United Nations

The age structure of the population is shown below, with projections for the final three years.

Age group	1970	1980	1990	2000	2010	2015	2025	2050
To 14	22.0	21.6	22.2	18.0	15.4	16.1	16.3	16.2
15 to 59	61.1	62.3	60.6	60.8	61.2	59.2	57.0	51.3
60 and above	16.9	16.0	17.2	21.2	23.4	24.6	26.6	32.5

Note: due to rounding the breakdown above may not equal 100%.
Source: United Nations

The age structure of the population aged 65 and above and 80 and above is shown below, with projections for the final three years.

Age group	1970	1980	1990	2000	2010	2015	2025	2050
65 and above	11.8	12.5	11.7	15.2	17.5	18.4	20.5	25.2
80 and above	1.9	2.2	2.6	2.7	4.2	4.8	5.3	7.8

Source: United Nations

Life Expectancy

Life expectancy at birth is shown below.

Year	Males	Females
2010 to 2015	68.9	79.3
2005 to 2010	68.0	79.0
2000 to 2005	65.5	77.0
1995 to 2000	63.6	75.3
1990 to 1995	62.9	74.1
1985 to 1990	65.6	74.7
1980 to 1985	64.1	74.2
1975 to 1980	64.2	74.2
1970 to 1975	65.4	74.5

Source: United Nations

Life expectancy at various ages is shown below.

Present age	2010 to 2015	
	Males	Females
At Birth	68.90	79.29
5	64.62	74.87
10	59.70	69.93
20	49.94	60.03
30	40.58	50.28
40	31.91	40.77
50	23.99	31.50
60	16.76	22.67
70	10.80	14.71
80	6.50	8.46
90	3.77	4.35
100+	1.71	1.68

Source: United Nations

Major Causes of Death

The following table shows the 10 leading causes of death in 2011 as a percentage of all deaths:

Cause of death	Percentage
Diseases of the circulatory system	53.69
Tumours	24.17
Injury and poisoning	7.45
Diseases of the digestive system	3.63
Diseases of the respiratory system	2.73
Symptoms, signs and ill-defined causes	2.24
Diseases of the nervous system and sense organs	1.76
Endocrine, nutritional and metabolic diseases	1.25
Infectious and parasitic diseases	0.85
Mental and behavioural disorders	0.79
Other causes	1.44
Total	**100.00**

Source: Statistics Estonia

Language

The official language is Estonian, a Finno-Ugric language which is similar to Finnish.

Russian and Finnish are both widely understood and the number of English speakers is increasing, especially in business and in the tourism industry.

Religion

Christianity is the dominant religion. Most of the population is Lutheran but there is also a Methodist community. The Estonian Orthodox Church is affiliated to the Orthodox Patriarch of Constantinople (Eastern Orthodox) rather than Moscow (Russian Orthodox), but there are a small number of ethnic Russian churches.

Largest Cities

Capital

Tallinn - population of 393,222 (2011 census). The historic centre of Tallinn is described in the Unesco World Heritage List as the best-preserved mediaeval town in northern Europe.

In 1870 Tallinn became a major port following the construction of the St Petersburg-Tallinn railway. Presently it is a port for general cargo. The specialist grain shipping port of Muuga, which has free zone status, is situated nearby. Tallinn is home to about half of all Estonian companies.

Other Major Areas/Cities

The following population figures are taken from the 2011 census.

Tartu - population 97,600. Tartu, known as the oldest town in the Baltics, is a cultural and academic centre with a university founded in 1632.

Narva - population 58,663. Narva, which is largely Russian speaking, has an economy based on heavy industry and power generation.

Parnu - population 39,728. Parnu is a seaside resort and also has a peat extraction industry.

Kohtla-Jarve - population 37,201. Kohtla-Jarve is another majority Russophone town which has oil shale mining and manufacturing industries.

Government Structure

Constitution

The constitution was adopted on 28 June 1992 by a referendum in which, under the *1938 Citizenship Law*, citizens of Estonia and their descendants were entitled to vote. Independence had been regained from the Soviet Union in the preceding year on 20 August 1991, and on 7 October 1992 the current Republic of Estonia was declared legal successor to the previous republic of 1918 to 1940.

Executive/Legislature

Estonia is a parliamentary democratic republic, headed by a president who serves as head of state. The parliament, a state council (Riigikogu), is a single chamber and is elected every four years.

The president is elected by members of parliament and local officials every five years for a maximum of two terms. The president nominates the prime minister, who in turn chooses the cabinet. As head of state, the president is supreme commander of the armed forces and represents Estonia abroad; the role is largely ceremonial, however.

Electoral System

The parliament has 101 members, elected directly by proportional representation for four-year terms. Parties are subject to a 5% vote threshold but there is no such barrier in place for independents.

The first elections under the new constitution were held in September 1992, for both president and parliament.

There is universal suffrage for Estonian citizens over 18 years of age, including those residing aboard. Residents who are not Estonian citizens may vote in municipal elections.

The most recent parliamentary elections were held on 6 March 2011 and the next are due by April 2015. The last presidential elections were held in August 2011 and the next are due in 2016.

Local Government

There are 241 local government units in Estonia, made up of 39 cities and 202 rural municipalities, the smallest of which has less than 100 inhabitants. The municipalities are responsible for education, public works, housing, local road maintenance and primary level healthcare.

Only Estonian citizens may stand for office. The residents of each city or rural municipality elect the representative and legislative bodies of local government for a period of three years. The next local elections are expected in 2017.

Current Political Situation

Present Government

Toomas Hendrik Ilves of the Social Democratic Party (SDE) was sworn in as president in October 2006; in August 2011 he was re-elected for a second five-year term.

Andrus Ansip of the Reform Party (RE) is serving his second term as prime minister. Mr Ansip has indicated that he will not serve a third term if his party wins the next general elections in 2015.

The results of the 2011 parliamentary election are shown in the table below.

Party name	Acronym	% of vote	Seats
Estonian Reform Party	RE	28.6	33
Estonian Centre Party	K	23.3	26
Pro Patria and Res Publica Union	IRL	20.5	23
Social Democratic Party	SDE	17.1	19
Estonian Green Party	ER	3.8	0
Estonian People's Union	ERL	2.1	0
Russian Party in Estonia	VEE	0.9	0
Estonian Christian Democratic Party	EEKD	0.5	0
Estonian Independence Party	EI	0.4	0
Independent candidates	n/a	2.8	0
Total	-	**100.0**	**101**

Source: Estonian National Electoral Committee

Political Situation

Estonia joined the European Union on 1 May 2004 and adopted the euro as its currency from January 2011, thereby realising the government's chief policy goal, supported by a slim majority of the public (54% in November 2010). Against a background of high unemployment and stringent cuts, many residents worried that living standards could deteriorate further if the new currency were to bring local prices in line with European levels, but others countered that the euro would anchor Estonia in the west, away from Russian influence.

The incumbent government, led by the pro-business, Europhile RE was returned to power in March 2011, renewing the coalition between the RE and the Pro Patria and Res Publica Union (IRL). The result reflected the electorate's tolerance of the stringent policies that had been adopted by the government in order to improve the country's economic fundamentals and meet the conditions for joining the euro area. Since then, public acquiescence towards fiscal consolidation has faltered. In March 2012 teachers staged the largest strike in Estonia since independence. A subsequent strike by public sector health workers in October 2012 resulted in minimum wage increases of between 11% and 23% from March 2013.

A series of scandals that emerged in 2012 further undermined government credibility. Revelations in May 2012 that the ruling RE had accepted donations from unknown sources prompted the resignation of the justice minister and continued to weigh on its approval ratings in 2013. In the October 2013 local elections, the opposition Centre Party won the largest share of votes, 31.9%, followed by the IRL with 17.2% and the RE with 13.7%. The Social Democratic Party remained a distant challenger to the Centre Party with 12.5%.

General elections are next due in 2015. While the coalition's prospects may be dimmed by ethical questions and austerity fatigue, broad policy continuity is expected given the political establishment's pro-market consensus.

International Relations

Estonia is a member of the IMF, UN, OECD, WHO, WTO, Nato and the EU. It adopted the euro currency in 2011 and remains a proponent of fiscal probity within the union. Estonia was appointed to hold the rotating leadership of the Nordic-Baltic Eight (NB8) co-operation group in 2014. The country was also scheduled to fill the presidency of the Council of the Baltic Sea States in July 2014, with a focus on energy, transport and digital issues.

Estonia is a leading international proponent of e-government. In December 2013 Estonia and Finland concluded the first digitally signed treaty, outlining co-operation on projects including data exchange and storage systems to facilitate information sharing between government departments and bilateral counterparts.

The country's external relations are generally harmonious but a mutual distrust persists with Russia. In April 2007 a Red Army war memorial that served as the setting for annual ethnically-charged protests was removed from the centre of Tallinn to a military cemetery. Its removal prompted Russia to warn of consequences, including a possible severance of diplomatic relations. Cyber attacks were launched on government websites in the days following the removal of the statue. While Russia views the memorial as a monument to Estonia's liberation from Nazi rule, Estonians see it as a symbol of Soviet occupation. In February 2012 the Estonian parliament's resolution to honour Estonians who had fought against the Soviet army during World War 2 caused anger in Moscow, resulting in another strain in relations between the two governments. The status of formerly Soviet stateless ethnic Russians in Estonia is another source of friction. Estonia has strict requirements for attaining citizenship and 90,000 of its residents were estimated to be stateless in 2013.

Estonia supports political liberalisation within the former Soviet Union. Estonian wariness towards its larger neighbour was highlighted in its support for Georgia during the latter's brief war with Russia in August 2008. Estonian concerns were further confirmed in the unapproved release of secret diplomatic cables in late 2010, in which the US and Nato agreed a contingency plan to protect Poland and the Baltic states in the event of a Russian attack. Ties between the two countries are unlikely to lapse completely, however, as Russia continues to use Estonia as a transit route for its oil exports.

Economy

Economic Performance

Following independence in 1991, Estonia adopted neo-liberal policies in its transition to a market economy. The economy later registered impressive growth rates, peaking at 10.0% in 2006 and earning the country its "Baltic Tiger" moniker; this was driven in part by an overheated real estate market and unsustainable consumption fuelled by credit growth. Growth was also supported by exports and foreign investment, which the government encouraged with concessions, such as zero corporate tax on reinvested profits. Foreign direct investment averaged 7.6% of GDP between 2008 and 2012. Services account for nearly 65% of GDP.

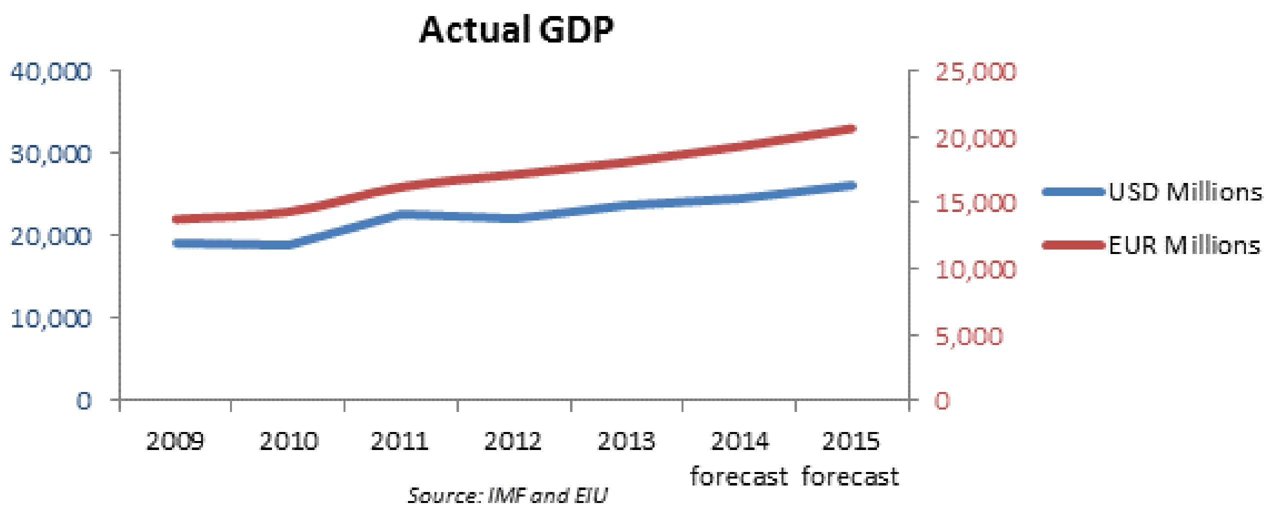
During the global financial crisis in 2009, the economy contracted by 14.3%. Growth resumed from 2010, fuelled by domestic demand. Continued stagnation in the euro area and lower capital investment will limit growth in 2014. The economy was expected to expand by 3.2% in 2014 and by 3.1% in 2015 due to higher public sector employment, rising minimum wages and productivity gains in the private sector. Inflation was expected to average between 3.2% and 3.8% over 2014 and 2015, reflecting greater access to credit and low interest rates.

Government spending was cut in order to adhere to the requirements for euro entry. Upon its adoption of the euro, Estonia had the lowest total public debt in the EU, at 7.2% of GDP. The budget deficit was expected to average 0.3% through 2015, reflecting higher tax revenues in response to rising wages and consumption.

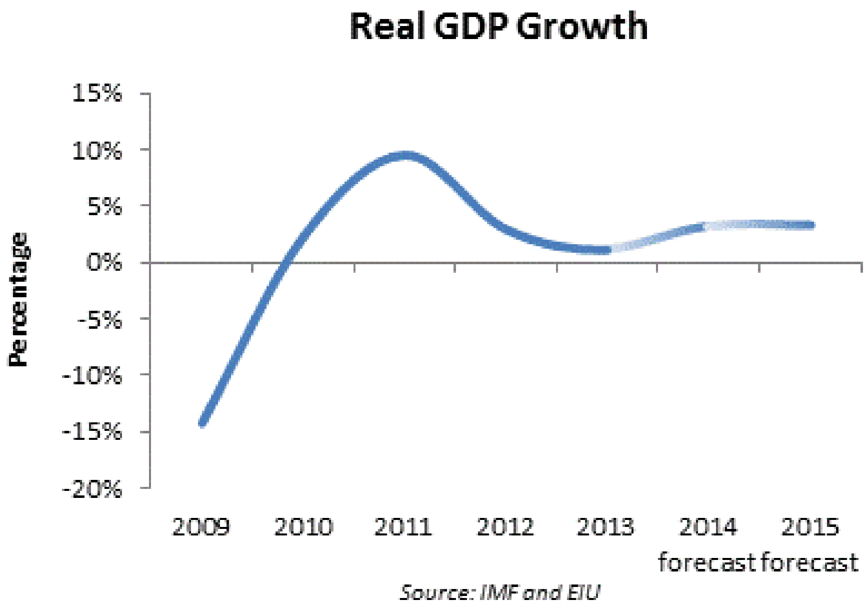
In November 2013 Standard and Poor's reported that Estonia's sovereign debt was rated "AA-" with a stable outlook.

Gross Domestic Product

Total GDP figures are shown below in local currency and US dollars (USD) converted at the average annual rate of exchange.



Growth in real GDP in local currency is shown below.



The main contributors to GDP are shown below.

Industry	2012
	Percentage of total
Services	64.28
Manufacturing	18.49
Heavy industry and construction	13.16
Agriculture	4.08

Note: due to rounding the breakdown above may not equal 100%.

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

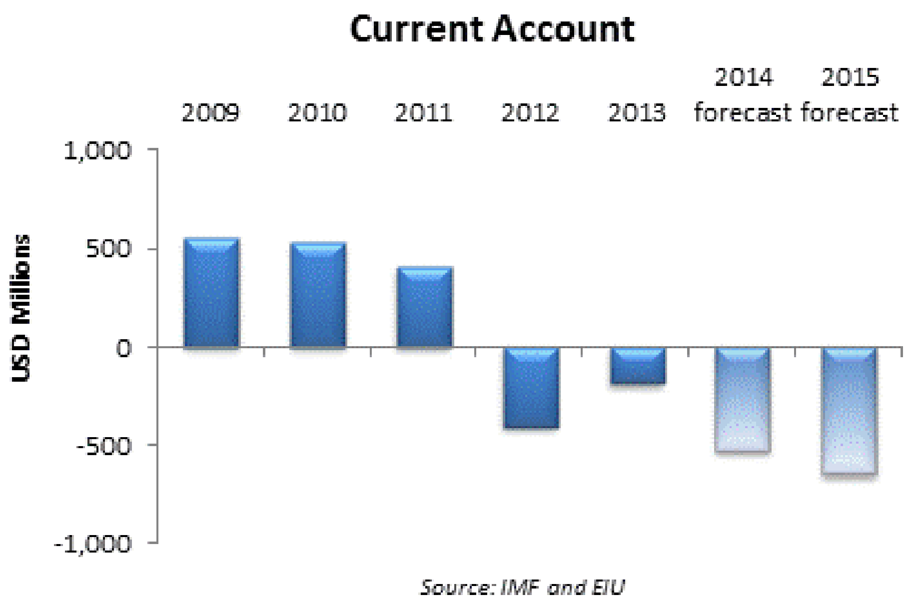
GDP per capita in US dollars (USD) and in comparable economies is shown below.

Country	2012
	GDP per capita
Sweden	55,071.72
Finland	45,741.00
Estonia	**17,076.40**
Latvia	13,773.35
Lithuania	13,984.23

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

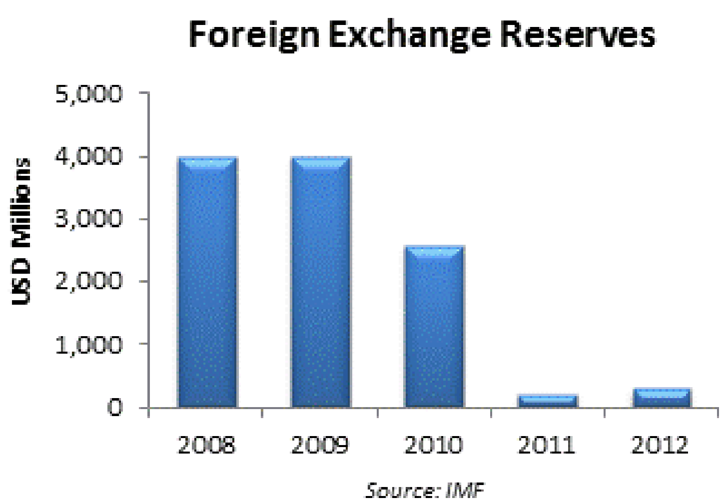
Current Account Balance

The current account balance in US dollars (USD) is shown below.



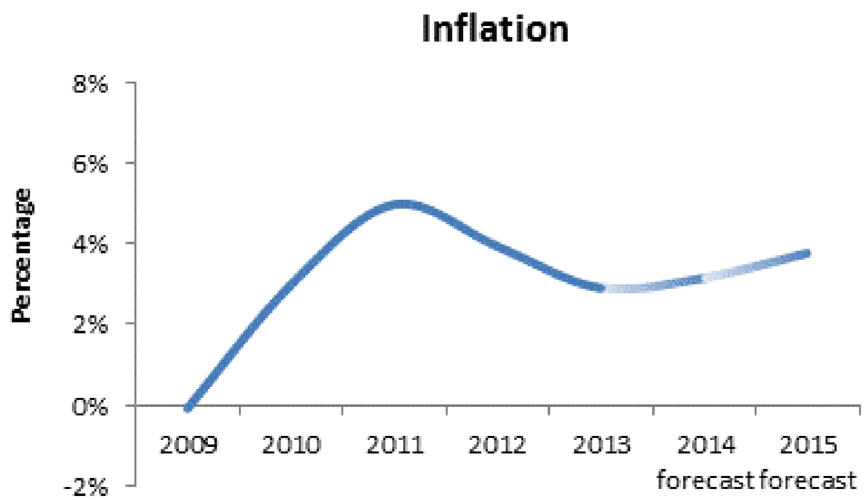
Foreign Exchange Reserves

Foreign exchange reserves, excluding gold, are quoted in US dollars (USD) below.



Inflation

Annual consumer price inflation is shown below.



Source: IMF and EIU

Interest Rates

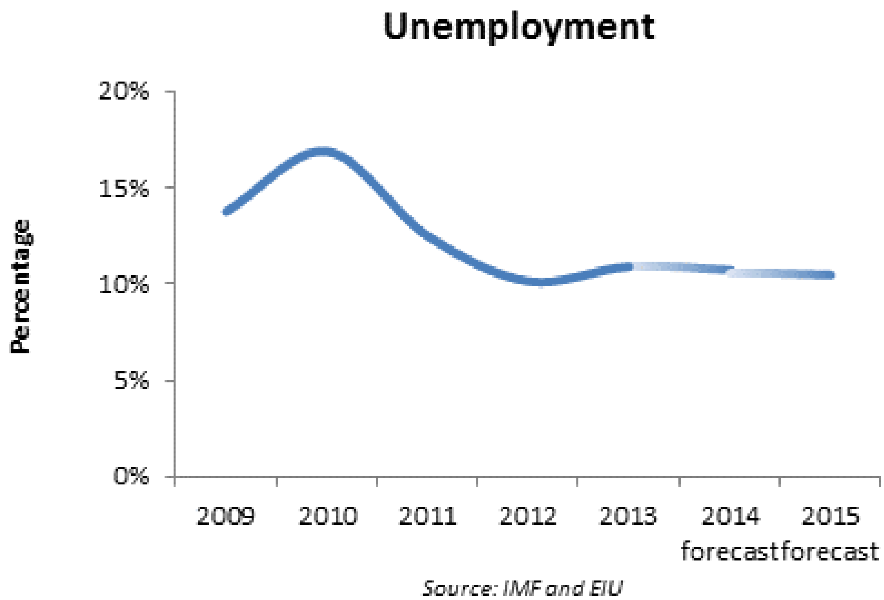
Key interest rates are shown below.

Investment type	2009	2010	2011	2012	2013
Deposit rate	4.82	1.11	1.27	0.67	0.40
Lending rate	9.39	7.76	6.12	5.75	5.50
Money market rate	5.93	1.57	1.40	0.60	0.20

Source: IMF and EIU

Employment

The percentage of the labour force that is unemployed is shown below.



The labour force equalled 696,700 in the third quarter of 2013, of which 8.0% were unemployed. The distribution of employment by sector during that period is shown in the table below:

Industry type	Percentage
Manufacturing	19.0
Commerce and repairs	13.4
Construction	9.5
Education	9.5
Transportation and storage	7.0
Public administration, defence and social security	6.4
Healthcare and social work	5.6
Administrative and support services	4.3
Agriculture	4.3
Professional, scientific and technical services	3.8
Accommodation and catering	3.5
Information and communication	3.2
Arts, entertainment and recreation	2.8
Real estate	2.0
Financial and insurance	1.7
Utilities	1.5
Mining and quarrying	0.9
Other employment	1.6
Total	**100.0**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Earnings

The minimum wage was EUR 320 (USD 421) in 2013. After a strike in October 2012, minimum hourly wages in the public sector health service were set as follows in March 2013: caregivers earned from EUR 2.60 (USD 3.42); nurses earned from EUR 4.50 (USD 5.92); and doctors earned from EUR 8.00 (USD 10.52).

Average gross monthly earnings for the listed industry types are shown below for the second quarter of 2013.

Industry type	Gross hourly earnings	
	EUR	USD
Financial and insurance	1,591	2,093
Information and communication	1,579	2,078
Utilities	1,348	1,774
Mining and quarrying	1,303	1,714
Public administration, defence and social security	1,152	1,516
Professional, scientific and technical activities	1,146	1,508
Construction	1,030	1,355
Transportation and storage	980	1,289
Healthcare and social work	980	1,289
Average all sectors	**976**	**1,284**
Water supply and sanitation	971	1,278
Manufacturing	940	1,237
Education	936	1,232
Commerce and repairs	884	1,163
Administrative and support services	842	1,108
Agriculture, forestry and fishing	834	1,097

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The distribution of income within the employed population is shown below for mid-2013.

Income bracket	% of employees
Above USD 2,000	4.9
USD 1,500 to USD 1,999	12.6
USD 1,000 to USD 1,499	72.6
Below USD 1,000	9.9

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Key Industries

Energy and mining

The major heavy industry is oil shale mining and processing. This fuel provided 70% of Estonia's energy in 2012. Estonia is investing in research to extract energy from oil shale more efficiently, and Estonian companies are also involved in projects in Jordan and the US. Mining and quarrying represented 0.9% of jobs in late 2013.

Port services and transit

Port services and transit trade to Russia are significant contributors to the economy. Tallinn also became a key general port city, and has now been extended to handle specialist operations.

Manufacturing

Manufacturing was the leading source of employment in late 2013, contributing 19% of jobs. The sector accounted for 18.49% of GDP in 2012.

Much of Estonia's manufacturing is located in the north, around Tallinn. Textiles processing, food processing and timber products are the most important light industrial sectors, although textile production has been in decline over recent years. The wood, timber and paper sector is the largest manufacturing employer, but demand for its output fluctuates with rates of construction.

The electronics sector has grown rapidly and includes Elcoteq Tallinn, a subsidiary of Finland's Elcoteq.

Technology

Estonia has a vibrant telecommunications sector. It has pioneered e-voting and e-government, and is the birthplace of Skype.

Exports and Imports

Exports are shown below, with leading commodities reported as percentages of total exports and in US dollars (USD).

Commodity	2011	
	Percentage	USD mn
Machinery and equipment	31.51	4,599.87
Mineral products	19.86	2,899.07
Foodstuffs	9.67	1,410.78
Timber products	8.85	1,292.06
Other	30.11	4,394.42
Total	**100.00**	**14,596.20**

Note: due to rounding some totals may not equal the breakdown above.

Source: EIU

The most important export destinations are shown below.

Destination	2011	
	Percentage	USD mn
Sweden	15.63	2,280.95
Finland	15.04	2,194.68
Russia	11.01	1,606.75
Latvia	7.95	1,160.69
Other	50.38	7,353.13
Total	**100.00**	**14,596.20**

Note: due to rounding some totals may not equal the breakdown above.
Source: EIU

Imports are shown below, with leading commodities reported as percentages of total imports and in US dollars (USD).

Commodity	2011	
	Percentage	USD mn
Machinery and equipment	31.29	4,799.45
Mineral products	20.66	3,169.89
Chemicals	14.29	2,191.52
Foodstuffs	11.24	1,725.02
Other	22.52	3,454.72
Total	**100.00**	**15,340.60**

Note: due to rounding some totals may not equal the breakdown above.
Source: EIU

The most important sources of imports are shown below.

Source	2011	
	Percentage	USD mn
Finland	12.55	1,924.94
Latvia	10.77	1,652.34
Sweden	10.58	1,623.04
Germany	10.19	1,563.51
Other	55.91	8,576.78
Total	**100.00**	**15,340.60**

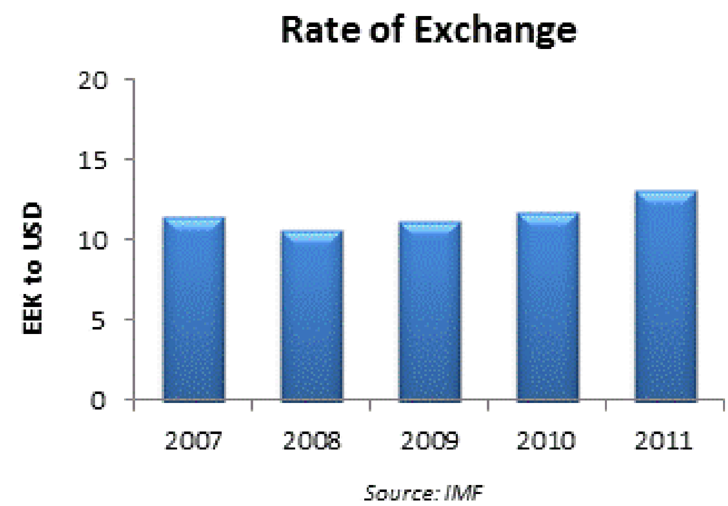
Note: due to rounding some totals may not equal the breakdown above.
Source: EIU

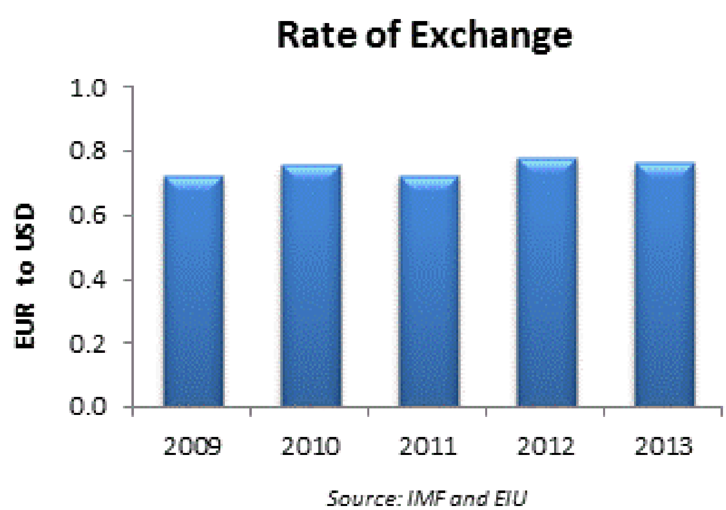
Currency and Exchange Control

Currency and Exchange Rate

Estonia designated the kroon (EEK) as its currency following its independence from the Soviet Union in 1991. The country also adhered to a currency board system which forbade the issuing of money not covered by reserves. Kroons were initially tied to the German mark, which was later replaced by a fixed exchange rate with the euro. Estonia adopted the euro (EUR) as its currency on 1 January 2011.

The average annual exchange rates of the kroon (EEK) and the euro (EUR) against the US dollar (USD) is shown below.





The exchange rate when this report was in preparation has been used for all current conversions and is shown in the Key Facts section of this report. For previous years, the average annual rate for the year in question has been used.

Exchange Control

The euro is freely convertible.

Supervision and Control

Legislation

EU Legislation

The European Union (EU) is a grouping of 28 European countries that have agreed a process of co-operation and integration in economic, political and judicial affairs. The body of legislation created at the EU level has evolved over several decades and has had a significant impact on insurance in member states as the EU has proceeded to implement the Financial Services Action Plan (FSAP) adopted in May 1999. The FSAP objectives were to:

- create a single market for wholesale financial services
- ensure open and secure retail markets
- implement state-of-the-art prudential rules and supervision.

These objectives are now considered largely to have been met in the insurance arena. Implementing legislation is covered comprehensively in the separate Axco EU Legislation Report which can be accessed via the following link:

EU Legislation Report - Click here

Domestic Insurance Legislation

The principal life and non-life insurance legislation in Estonia is the *Insurance Activities Act*, the latest version of which came into effect from 1 January 2014.

Insurance policies are also subject to the general provisions of the *Law on Consumer Protection* and the *Law on Obligations*. The latter brings Estonian civil law regarding contractual obligations in line with the EU: the law emphasises the rights and obligations of individuals against natural monopolies.

The *Accounting Act*, valid from 1 January 2003, currently affects all business activities in Estonia and establishes general requirements for organising accounting and reporting. International Financial Reporting Standards (IFRS) were in force from 2006 for all insurers.

The primary influences on Estonian insurance legislation are the directives emanating from the EU: few changes result from domestic considerations.

Estonia transposes EU directives in a timely manner and usually meets the implementation dates set for each new directive. Regulations to implement the EU's *Solvency II* directive have been introduced in the latest version of the *Insurance Activities Act*, in force from 1 January 2014.

A new, fully revised version of the insurance law is being drafted for introduction from 1 January 2016 and will incorporate changes required by the EU's new *Insurance Mediation Directive* (IMD2).

Amendments came into force on 1 January 2008 which transposed *Directive 2005/68/EC* on reinsurance and *Directive 2004/113/EC* implementing the principle of equal treatment between men and women in the access to and supply of goods and services (including insurance). Changes resulting from the gender discrimination ruling of the European Court of Justice have been significant for life insurance only. In non-life insurance, relevant rating methods have been predominantly unisex.

In order to comply with obligations arising from the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO), amendments to the *Insurance Activities Act* (IAA) have been made to extend cross-border insurance to WTO (and non-WTO) countries. The law allows an Estonian insurance company or intermediary to transact insurance activities in a country outside the EEA (a "third country") (subject to authorisation): at the same time, any insurance company or intermediary established in a country outside the EEA wishing to engage in insurance activities in Estonia on a cross-border basis, is able to apply for permission to do so from the supervisory authority.

Legislative Process

Legislation is proposed by members of the parliament or drafted by the relevant ministry and presented to the government for consideration; it may then be submitted to parliament for approval and given three readings. Those bodies affected will be consulted. Once approved, the Estonian president signs the legislation into law.

Statutory Tariffs

There are no statutory tariffs in force in Estonia. There is no requirement for rates to be filed or otherwise approved by the authorities.

Compulsory Insurances

List of Compulsory Insurances

- Motor third party liability for bodily injury and property damage.
- Professional indemnity for a range of professions including notaries, auditors, barristers (advocates), trustees in bankruptcy, bailiffs, assayers, patent attorneys and insurance intermediaries.
- Bodies designated under the *Product Conformity Attestation Act* to act as accreditation authorities, which have the right to conduct assessment procedures necessary to attest the conformity of various products with legislation are required to carry liability insurance.
- Liability of those involved in handling liquid fuel.
- Liability of internet services providers in respect of digital signatures.
- Air passenger carriers' liability.

- Liability of waste management companies.
- Personal accident for fire and rescue workers.
- Travel and tour operators.
- Railway operator's liability (a financial guarantee or insurance).
- Shipments of waste (a financial guarantee or insurance).
- Clinical trials liability.
- P&I cover for Estonian ship owners.
- Marine oil pollution arising from the *International Convention on Civil Liability for Oil Pollution Damage.*

Supplementary Information on Compulsory Insurances

The *Insurance Activities Act* makes a distinction between obligatory and compulsory insurance.

The act states that "obligatory insurance means insurance contracts into which there is an obligation to enter provided by law. Compulsory insurance is a legal relationship which arises if the obligation to pay insurance premiums is provided by law and the state or a legal person in public law assumes the obligations of the insurer". The second point is related, for example, to social security. The act does not apply to compulsory insurance as defined here.

Obligatory insurances in Estonia are summarised below.

According to the *Motor Third Party Liability Insurance Act,* from 1 June 2012 motor third party liability (MTPL) limits have been raised to the amounts required by the EU's *Fifth Motor Insurance Directive* but are the unindexed amounts: EUR 5mn (USD 6.75mn) in respect of bodily injury and EUR 1mn (USD 1.35mn) for property damage. All dependants of one person are considered as one claimant.

Professional indemnity insurance is a statutory requirement for a range of professions including notaries, auditors, barristers (advocates), trustees in bankruptcy, bailiffs, assayers, patent attorneys and insurance intermediaries.

Under the *Notaries Act,* notaries are required to carry liability insurance with limits of at least EUR 63,910 (USD 86,365) per event (formerly EEK 1mn) and EUR 191,700 (USD 259,054) in the annual aggregate (formerly EEK 3mn).

Under the *Auditors Activities Act* of 2010 auditors are required to carry liability insurance, as detailed below.

For a private limited company, a public limited company or a European company:

- at least 10 times the amount of the fees of the two biggest client contracts of the last completed activity report period of the insured, but not less than EUR 64,000 (USD 86,500) per event

- 10 times the amount of the fees of the three biggest client contracts of the last completed activity report period of the insured, but not less than EUR 64,000 for all the claims submitted in a year.

The insurance coverage for an audit firm operating as a sole proprietor, a general partnership or limited partnership shall be:

- at least five times the amount of the fees of the two biggest client contracts but not less than EUR 32,000 (USD 43,200) per event
- five times the amount of the fees of the three biggest client contracts but not less than EUR 32,000 for all the claims submitted in a year.

The deductible per event shall not exceed:

- the share capital of the audit firm or the fixed capital of a European company
- EUR 3,000 (USD 4,050) in the case of an audit firm operating as a limited partnership or general partnership or sole proprietor.

Under the *Medicinal Products Act*, the sponsor of a clinical trial of a medicinal product shall guarantee the trial subjects' health insurance protection in the event of damage to health related to the trial.

Under the *Bar Association Act* barristers are required to carry liability insurance with limits of at least EUR 63,910 (USD 86,365), formerly EEK 1mn.

Under the *Bankruptcy Act* trustees are required to carry liability insurance with limits of at least EUR 63,910 (USD 86,365) formerly EEK 1mn per event and EUR 300,000 (USD 405,400), formerly EEK 5mn in the annual aggregate.

Under the *Bailiffs Act* bailiffs are required to carry liability insurance with limits of at least EUR 63,910 (USD 86,365), formerly EEK 1mn per event and in the aggregate. The maximum amount of insurance indemnities payable for all insured events having taken place within the period of insurance shall be not less than EUR 191,700 (USD 259,054).

Under the *Precious Metal Articles Act* assayers are required to carry liability insurance with limits of at least EUR 6,391 (USD 8,636), formerly EEK 100,000.

Under the *Patent Agents Act* patent agents are required to carry liability insurance with limits of at least EUR 63,910 (USD 86,365), formerly EEK 1mn.

Under the *Insurance Activities Act* insurance intermediaries are required to have liability insurance with limits in accordance with EU directives.

Those bodies designated under the *Product Conformity Attestation Act* to act as accreditation authorities, which have the right to conduct assessment procedures necessary to attest the conformity of various products with legislation, are required to carry liability insurance. Liability insurance may also be required by related technical inspection bodies.

Specific items of legislation which make reference to such bodies include the *Buildings Act,* the *Maritime Safety Act,* the *Electrical Safety Act,* the *Explosive Substances Act,* the *Gaseous Fuel Safety Act,* the *Liquid Fuel Act,* the *Pressure Equipment Safety Act,* the *Lifts and Cableways Installations Act,* the *Metrology Act,* the *Medical Devices Act* and the *Mining Act.*

Minimum liability limits tend to be either EUR 31,995 (USD 43,236), formerly EEK 500,000 or EUR 63,910 (USD 86,365), formerly EEK 1mn. The relevant laws do not state whether insurance can be provided by insurers outside the EU/EEA.

According to *EU Directive 95/18/EC*, railway undertakings must be adequately insured or make equivalent arrangements for liability for passengers, goods and third parties. Member states may fix their own limits. Third party liability for companies involved in operating, managing or building railways is obligatory according to the *Railways Act*.

Minimum limits in 2014 were:

- EUR 1,917,349 (USD 2.59mn) for undertakings engaged in the operation of railways; this was previously set at EEK 10mn
- EUR 639,116 (USD 859,616) for i) undertakings engaged in railway civil engineering works; ii) undertakings engaged in the construction, repair or maintenance of railway vehicles used on public railways or in the provision of rail transport services (this was previously set at EEK 1mn)
- EUR 639,116 (USD 859,616) in respect of liability for bodily injury and property damage in respect of passengers.

Liability insurance for those involved in handling liquid fuel is obligatory under the *Liquid Fuel Act*. Companies involved in this activity should have share capital or liability insurance of at least EUR 31,955 (USD 43,182), formerly EEK 500,000.

Liability of internet services providers in respect of digital signatures is set out in the *Digital Signatures Act.* No mention is made of any minimum indemnity limits.

According to the *Rescue Act* it is obligatory for the employees of the fire and rescue services to be insured for personal accident. No sums are mentioned and the act does not state whether insurance can only be offered by insurers permitted to operate in Estonia.

Travel and tour operators are also obliged to have some form of financial security.

Air passenger carriers' liability is compulsory under the *Aviation Act* and limits are in line with EU *Directive EC 785/2004*. The act does not state whether liability insurance can only be offered by insurers permitted to operate in Estonia.

The EU *Environmental Liability Directive (2004/35/EC)* is in force. Liability of waste management companies for damage caused through mishaps in the handling of hazardous waste is set out in the *Waste Act*. No mention is made of any minimum indemnity limits; only some form of financial security is required.

Estonia is a signatory to the *International Convention on Civil Liability for Oil Pollution Damage, 1969* (renewed in 1992 and amended in 2000) and often referred to as the CLC Convention, which governs the liability of shipowners for oil pollution damage. More details are available in Axco's separate report on International Agreements.

The Alternative Investment Fund Managers Directive (2011/61/EU) should have come into force in all EU member states with effect from 22 July 2013, but implementation of the directive in Estonia is not expected until the first quarter of 2014 at the earliest. According to the directive such fund managers are free to choose whether to cover their professional liability through additional own funds or by an appropriate professional indemnity insurance.

A financial guarantee or insurance is required for all shipments of waste imported into, exported from, or in transit through the EU: this is intended to cover costs where recovery or disposal is illegal or cannot be completed as intended. Further details are provided in the separate Axco EU Legislation Report.

To satisfy EU requirements with regard to patient's rights, Estonia is looking to introduce medical malpractice cover. Although draft legislation has been prepared, the government has decided to slow the process and re-think the proposals. In January 2014 no firm timetable was in place for its introduction.

A law on compulsory workers' compensation insurance was expected to come into force as early as 1 January 2003 but introduction has been postponed in view of political difficulties. In early 2014 some observers declared that there was increasing pressure for this insurance to be introduced and that it was merely a matter of time. The same political sensitivities remain, however: employers see this as another cost burden while trade unions do not want to see the involvement of the private insurance sector. No material progress is expected before the next general election in 2015.

Changes in Legislation

Legislative Update

Regulations to implement the EU's *Solvency II* directive have been introduced in the latest version of the *Insurance Activities Act*, in force from 1 January 2014.

Projected Legislation

A new, fully revised version of the insurance law is being drafted for introduction from 1 January 2016 and will incorporate changes required by the EU's new *Insurance Mediation Directive* (IMD2).

A draft of a new law on motor third party liability is under consideration in Estonia's parliament.

Supervision

Insurance Supervisory Authority

The Financial Supervision Authority (Finantsinspektsioon - FI) carries out the supervision of life and non-life insurance business as well as pension funds. Although technically part of the Bank of Estonia, in practical terms FI is an independent body whose decisions can only be challenged in court.

In September 2013 the FI's supervisory board appointed Kilvar Kessler as the new chairman of the management board and he took up the post on 16 January 2014.

The supervisory authority is funded by a levy on insurance companies. This levy amounts to a fraction of a percentage point on a combination of premium income and assets.

Supervision largely follows the EU model, relying on solvency and other financial monitoring, supplemented by direct on-site inspections of insurers which may be either general or specific in nature. Regulations are normally strictly enforced but the department does take a pragmatic view especially where the needs of commercial insurance buyers are concerned.

The FI's insurance department is recognised as one of the most efficient insurance regulatory bodies in central and eastern Europe and its personnel have been seconded to other emerging markets in eastern Europe to provide supervisory expertise.

EU supervisory bodies

There are two key supervisory bodies responsible for monitoring insurance activities within the EU, both of which were created in 2010 as part of a new EU-level supervisory structure. These bodies are described below.

- European Systemic Risk Board (ESRB): monitors high-level risks to the EU financial system and issues warnings and recommendations. It has no binding powers but was conceived as a "reputational body" whose prestige should be sufficient to ensure that its opinions and decisions influence supervisors and policymakers.
- European Insurance and Occupational Pensions Authority (EIOPA): sits over all regulators in the EU and will strengthen supervisory co-ordination, allowing a more consistent approach to implementing directives.

Further details on these supervisory authorities and others relating to financial services in the EU are provided in the separate Axco EU Legislation Report.

Statutory Returns

The fiscal year runs from 1 January to 31 December.

The accounting and reporting requirements of insurers are as set out in the *Accounting Act* of 1995 , the *Insurance Activities Act*, other legislation and insurers' articles of association. Compliance with these requirements is normally excellent.

Monthly and quarterly statements are required and are sufficiently detailed to enable adequate oversight of insurers' activities.

Insurers are required to submit their annual report to the FI within seven working days from the approval of the annual report and no later than 1 May of the year following the financial year. Insurers must also publish their annual balance sheets and profit-and-loss accounts on their website no later than 1 July of the year in which the accounts are prepared.

In accordance with International Financial Reporting Standards (IFRS), annual reports of insurers must be audited by an auditor.

Auditors are required to notify the FI immediately in writing of any circumstances revealed in the course of an audit which endanger or may endanger the solvency and financial soundness of the insurer, which indicate a possible or actual violation of law, or which indicate any possibility that the interests of policyholders or insured persons are not sufficiently protected.

Auditors are also obliged to give their opinion on the principles of calculation of technical provisions and of their accuracy, as well as whether they comply with the legislation pertaining to shareholders' funds.

Insolvency Regulation

To prevent an insurer's insolvency FI can introduce a "special regime", which is a process used to ascertain whether the activities of the insurer can be brought into compliance with the law and to take measures to protect the interests of policyholders. It may establish that circumstances have arisen which mean an activity licence could be declared invalid, or that there is concern that such circumstances may arise.

A special regime is established by decision of the FI management board, and for the duration of the regime insurers are prohibited from concluding new insurance contracts and extending existing contracts. Throughout the process a special regime trustee holds the rights of the management and supervisory boards, and general meetings of the insurer.

Based on reports submitted by a special regime trustee, it is the FI's duty to assess whether the insurer is able to resume its activities, whether it is necessary to revoke the insurer's activity licence in part or in full, or whether the insurer's activities need to be reorganised. If the assets of an insurer decrease to nil in the course of a special regime, the insurer will be wound up.

A special regime terminates upon any of the following: expiry of a six-month term; by decision of the FI; or if a court rules to commence bankruptcy proceedings against the insurer, or makes a judgment concerning the enforced dissolution of the insurer.

An insurer may be wound up only after the insurer has transferred the insurance portfolio, terminated all insurance contracts or fulfilled all commitments arising from the insurance contracts. An insurer will be wound up if its own funds amount to less than those prescribed by law and if it has failed to increase its own funds to the necessary levels during the term established by the FI.

Bankruptcy proceedings or the enforced winding-up of an insurer may commence only on the basis of a petition from FI or a liquidation committee. The former may file a bankruptcy petition against an insurer if the insurer's assets are not sufficient to satisfy all creditors' claims or to cover technical provisions, and if the transfer of the insurance portfolio to another insurer or other insurers is not possible. In other cases bankruptcy petitions against insurers may be submitted in accordance with the *Commercial Code*.

Apart from motor third party liability, there is no general policyholders' protection fund.

Consumer Dispute Resolution

There is no official insurance ombudsman.

The Estonian Insurance Association has, however, set up a mechanism for the resolution of disputes between insurers and insureds including representatives of the legal profession, consumers, the finance ministry and insurers.

To date private individuals have usually been ignorant of the existence of the supervisory body, FI, and may resort to a lawyer in the first instance or complain to the press. The FI seldom receives complaints relating to life insurance.

Insurers may approach the FI for its legal opinion on any dispute with policyholders. Although it is not binding, should any case come to court the supervisor's legal view would most likely prevail as its legal expertise would weigh heavily in any final judgement.

The Consumer Protection Board may become involved with insurance matters and it has signed a memorandum of understanding with the FI.

Non-Admitted Insurance Regulatory Position

Definition

Non-admitted insurance refers to the placing of insurance outside the regulatory system of the country in which the risk is located. A non-admitted insurance policy may be one that is issued abroad or one in which the risk(s) may be included in a global master policy by an insurer that is unauthorised in the country in which the risk is located. An authorised insurer is one that has been granted permission to do business in a country (or region) by the local supervisory authority. The text below describes the regulations that apply to non-admitted insurance for this country.

Summary

Unauthorised insurers cannot carry on insurance activity in Estonia, with some exceptions. There is nothing in the insurance law which indicates that insurance must be purchased from locally authorised insurers. This is generally interpreted to mean that insurers can issue policies from abroad (with exceptions) if approached by a buyer or if permission is granted by the supervisory authority.

Estonian insurance brokers registered with the supervisory body may now offer cover from insurance companies within and outside the EU/EEA (subject to authorisation by the supervisory authority).

Insurers from European Economic Area member states (European Union countries and Norway, Iceland and Liechtenstein) may provide insurance under freedom of services legislation.

In order to comply with Estonia's obligations arising from the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO), cross-border insurance has been extended to WTO (and non-WTO) countries. Any insurance company or intermediary established in a country outside the EEA wishing to engage in insurance activities in Estonia on a cross-border basis, is now able to apply to the supervisory authority for permission to do so.

Legislation

The legal provisions setting out the requirement for insurers to be authorised are contained in *Section 16Paragraph 1* of the *Insurance Activities Act* which states that in order to engage in insurance activities, a company shall hold a relevant activity licence.

Section 41 deals with the activities of foreign insurance enterprises in Estonia. *Paragraph 1* states that "A person who has the right to engage in insurance activities according to the legislation of the state where it is founded and where an authorisation to engage in insurance activities was granted thereto (hereinafter home country), may also engage in insurance activities in Estonia on the basis of the activity licence issued in the home country by establishing a branch or engaging in cross-border insurance activities". (Translation provided by the supervisory authority.)

The law goes on to specify the way that both EU/EEA members and non-members (third countries) can operate in Estonia through a branch or on a cross-border basis in *Sections 42* to *47*.

The *Insurance Activities Act* is silent on the freedom of buyers to purchase insurance outside the country.

Estonian insurance brokers registered with the supervisory authority may offer cover from insurance companies outside the EU/EEA but subject to authorisation by the supervisory authority.

Freedom of Services in the European Economic Area (EEA)

Under freedom to provide services legislation an insurer whose head office is located in another EEA state (any EU member state, Iceland, Liechtenstein or Norway) may provide insurance in Estonia without being required to have an office there, provided that the company has made the necessary application by informing the supervisory authority in its home country.

Freedom to provide services legislation, which forms part of the creation of a single market in insurance services, effectively extends the licensed or admitted market to the whole of the EEA region. Consequently the concept of non-admitted insurance, as defined above, can only apply to business written by insurers that are located outside the European Economic Area.

Freedom of Services outside the European Economic Area (EEA)

In order to comply with obligations arising from the General Agreement on Trade in Services (GATS) of the WTO, amendments to the *Insurance Activities Act* were made from February 2010 to extend cross-border insurance to WTO (and non-WTO) countries. The law allows an Estonian insurance company or intermediary to transact insurance activities in a country outside the EEA ("a third country") (subject to authorisation by the supervisory authority) and also provides for an insurance company or intermediary established in a country outside the EEA wishing to engage in insurance activities in Estonia on a cross-border basis, to be able to apply for permission to do so from the local supervisor.

Insurers

Compulsory insurance may be placed on a cross-border freedom of services basis: amendments to the *Insurance Activities Act* extend the possibility of cross-border insurance, including compulsory motor third party liability (MTPL), to insurers in WTO (and non-WTO) countries.

Insurers of compulsory classes should appoint a legal representative in Estonia to receive claims from third parties: under Estonian law claimants under statutory covers are permitted to apply for direct settlement of claims made against any tortfeasor.

Insurers wishing to write compulsory MTPL are required to be members of the Estonian Traffic Insurance Fund (ETIF).

There are no restrictions or regulations on the insurance of import or export cargos.

Local Risk Definition

Under EU law, a risk is located in Estonia if the insurance:

- relates to buildings and/or their contents and the property is located in Estonia
- relates to a vehicle which is registered in Estonia (this includes ships and aircraft)
- covers holiday or travel risks of up to four months duration and the policy is taken out in Estonia.

If the above do not apply, the risk is still considered as being located in Estonia if it covers a policyholder who is either:

- an individual who is habitually resident in Estonia or
- a business with its business establishment to which the policy relates in Estonia.

Exchange Controls

Currency exchange control is not an issue for non-admitted placements.

Tax

Premiums paid overseas are tax-deductible for the buyer.

Insurer Responsibilities

Insurers involved in non-admitted placements are not obliged to warn buyers that they are not subject to local supervision.

Multinationals

There does not appear to be any legislation relating specifically to multinational insurance programmes or multinational insurers and such insurances and insurers are subject to the same rules as all other insurances and insurers.

DIC/DIL

The legislation does not address the use of global difference in conditions/difference in limits covers or excess layers above a primary local policy.

Premium Taxes

There are no premium taxes to be taken into consideration.

Insurers wishing to write compulsory MTPL are required to join ETIF and are subject to the ETIF levy.

Buyers

There is nothing in the legislation to prevent insurance buyers from placing their business with non-admitted insurers abroad. There are no restrictions or regulations on the insurance of import or export cargos.

It is understood that there are no tax implications regarding the payment of losses from a non-admitted insurer.

Intermediaries

Intermediaries (brokers or agents) have to be authorised to do insurance business.

Estonian insurance intermediaries registered with the supervisory body may offer cover from insurance companies both within the EU/EEA and outside this area (but subject to authorisation by the supervisory authority).

Where local risks are placed as part of a multinational insurance programme, brokers involved in non-admitted placements are not required to warn buyers that their insurer is not subject to local supervision.

Intermediaries operating in any EEA state (any EU member state, Iceland, Liechtenstein or Norway) are required to be registered with their home authority and may conduct business in other EEA states under freedom to provide services provided that they have made the necessary application by informing the supervisory authority in their home country.

Market Practice

The Financial Supervision Authority recognises that clients are free to seek cover outside Estonia on their own initiative but do so at their own risk.

Although most business is placed locally, some insurance for large and complex risks involving high sums insured is placed abroad with EU/EEA insurers using brokers.

Where the largest risks are concerned, the Estonian market is often bypassed and insurance placed directly into foreign markets. One reason for this is that as yet most local insurers, even those with a foreign parent, do not have any financial rating and some international brokers insist on the best possible security for their clients.

Some risks continue to be fronted despite the fact that since Estonia's accession to the EU it has become easier to place business abroad on a freedom of services basis. There are several reasons for the continued fronting, including premium management, desire for local contact with an insurer and ease of claims handling. Increasing amounts of business are placed on a freedom of services basis .

Fines/Penalties

The fine for breaching the provisions of the *Insurance Activities Act* is up to EUR 31,956 (USD 43,184) (formerly EEK 500,000) and is payable by insurers operating in Estonia without authorisation. No fines are imposed on individuals who place risks abroad with non-authorised insurers.

Fronting

There are no legal or regulatory restrictions on the use of local insurers to front the insurance of local risks into international insurance and reinsurance markets or captive arrangements. There are no impediments to using global insurance programmes or rates.

Some risks are placed by brokers directly into external markets without any local fronting.

A number of local companies front for locally based risks which are part of multinational groups: If Eesti, Seesam and ERGO are foremost in this regard. For global programmes the question of which company will front a risk is often decided outside Estonia by the broker of the main programme. Global programme wordings and rates are accepted.

Companies may retain a small share in each risk but may also reinsure 100%, depending on the nature of the risk. Fronting fees vary considerably but there is usually a minimum level.

Company Registration and Operating Requirements

Establishing A Local Company

According to the *Insurance Activities Act* an insurer or reinsurer may only operate as a public limited company, unless otherwise prescribed by law. In practice this means that mutuals are not permitted, although branch operations of foreign mutuals are possible.

Licences are issued on a class by class basis. Separate approval is required for inwards reinsurance and life and non-life inwards reinsurance each require a separate licence. Licence applications must have a three-year business plan including for each class:

- the area of operation, projected premium income and claims, premium tariffs, reinsurance programme, procedures for calculation of profit and loss, technical reserves and claims reserves
- specimen general insurance conditions, including insured events, conditions for refusing liability, premium payment procedures and the consequences of non-payment, the extent of the insurer's liability and circumstances under which fulfilment of obligations may be delayed or avoided, policy terms and cancellation provisions
- dispute resolution procedures and other general rights and obligations of the insurer (and insured)
- certification of the deposit of 50% of the legal minimum capital and of guarantees for the required minimum within the next six months
- biographical information on the founders of the company and the qualifications and experience of the management.

Types of Insurance Organisation

Insurance or reinsurance in Estonia may be offered only by companies registered with the FI under the *Insurance Activities Act.* According to this act an insurer/reinsurer may operate only as a public limited company, unless otherwise prescribed by law. In practice this means that mutuals are not currently possible, however, branch operations of foreign mutuals are allowed.

Branch operations of insurers from EEA members may be set up under EU freedom of establishment regulations. Branch operations of third country insurers are also permitted subject to their maintaining assets and retaining a deposit of part of the required solvency margin in Estonia or the EEA.

Insurers/reinsurers may pursue only insurance activities and, subject to permission from the FI, insurance-related activities. Cross-ownership of banks is possible, as are holding company structures and there are several groups which encompass life and non-life insurance companies, pension investment companies and other financial organisations.

No changes to the current regulations are being planned or discussed.

Foreign Ownership

There are no restrictions on foreign ownership of Estonian-registered insurers or reinsurers.

No changes to the current regulations are being planned or discussed.

Types of Licence

The *Insurance Activities Act* states that life and non-life business must be undertaken by separate insurance companies.

Personal accident (PA) and sickness are classified as non-life insurance. Life companies are allowed to transact "supplementary insurance" which includes PA and disability as additional benefits to life contracts or as stand-alone products too.

Licences are issued on a class by class basis and separate approval is required for inwards reinsurance. Life and non-life inwards reinsurance each require a separate licence.

No changes to the current regulations are being planned or discussed.

Capital Requirements

All insurance/reinsurance companies must have a guarantee fund equal to one-third of the solvency margin in accordance with EU directives.

Solvency Margins

As Estonia is a member of the European Economic Area, its solvency margins are subject to EU requirements. Detailed information regarding the requirements under EU directives is provided in the separate Axco EU Legislation Report.

The supervisory authority applies various stress tests to local insurers' and reinsurers' assets. Since August 2000 solvency has been calculated on a consolidated group basis .

The current EU solvency requirements under *Solvency I* and the position that will apply under *Solvency II* are summarised below.

Solvency I

Directive 2002/13/EC, known as the *Solvency I* directive, introduced several changes to solvency requirements in the EU. The key principle is that all insurers must satisfy the prescribed solvency margin at all times; failure to do so has serious consequences. The solvency margin corresponds to the excess of an insurer's admissible assets over foreseeable liabilities and excluding any intangibles.

The amount of the premium and claims thresholds and the minimum guarantee fund are subject to annual review in line with the European consumer price index and are adjusted if the movement in the index since the previous adjustment is greater than 5%. The current thresholds were established in December 2011.

The amount of free capital must not be allowed to fall below the level of the guarantee fund, which is set at one-third of the solvency margin, subject to a minimum. The minimum guarantee fund levels are currently EUR 3.7mn (USD 5.0mn) for insurers that write liability, credit and surety business and all life classes, and EUR 2.5mn (USD 3.38mn) for insurers writing all other non-life classes including private medical insurance. Any member state may provide for a 25% reduction of the minimum guarantee fund for mutual and mutual-type associations.

The required solvency margin for non-life business will be whichever is the higher of the two calculations set out below.

- A premium calculation based on the higher of the gross written or gross earned premium for all classes for the year, adjusted upwards for certain liability classes and further adjusted for reinsurance inwards and premium taxes and levies. A ratio of 18% of the adjusted figure up to a maximum of EUR 61.3mn (USD 82.84mn) plus 16% of the remainder is calculated, and the resulting figure is again adjusted to give consideration to outwards reinsurance claim recoveries up to a maximum reduction of 50%. The resulting figure is the solvency margin required.
- A claims calculation based on the average claims experience in the previous three years taking into account claims paid and outstanding for direct business and reinsurance inwards. There is an upwards adjustment for certain liability classes and an extended period of seven years is used for companies with a high exposure to storms, hail, frost or credit default. A ratio of 26% of the adjusted figure up to a maximum of EUR 42.9mn (USD 57.97mn) is taken plus 23% of any excess, and the resulting figure is adjusted for outwards reinsurance claim recoveries up to a maximum reduction of 50%. The resulting figure is the solvency margin required.

Solvency II

In co-operation with EU member states, the European Commission has initiated the *Solvency II* project with a view to establishing a solvency system that better reflects the true risks of insurers, including asset and operational risks in addition to insurance risk.

Directive 2009/138/EC, known as the *Solvency II Directive*, was approved by the European Parliament in April 2009 and covers life, non-life, reinsurance and insurance groups. The directive represents a significant departure from past practice as it is based on principles, rather than the prescriptive approach seen in *Solvency I*, and recognises that all companies' risk profiles are unique. To reflect this, companies may propose their own internal models rather than adopting the model suggested in the directive.

The *Solvency II Directive* adopts a three-pillar structure. Pillar I covers quantitative requirements including a consistent approach to the valuation of assets and liabilities and the calculation of solvency and minimum capital requirements. Pillar II covers qualitative requirements including management responsibility and the effectiveness of supervisory authorities. Pillar III deals with public disclosure by insurance entities.

The directive also contains detailed and complex provisions covering the supervision and solvency of insurance groups, including solvency assessment. For EEA insurers and reinsurers the rules for group solvency largely follow those for individual companies; for groups with headquarters outside the EEA, the rules provide for a more bespoke procedure.

A series of quantitative impact studies (QIS) have been carried out at the request of the European Commission. The studies have been managed by the European Insurance and Occupational Pensions Authority (EIOPA), the EU supranational insurance regulator, and its predecessor. The QIS are designed to assess the impact of the proposed *Solvency II* methodology on the financial situation of insurance undertakings. The published results of the most recent study, QIS5, show the industry to be well positioned for the capital demands of *Solvency II*.

The *Omnibus II* directive, which seeks to align the *Solvency II Directive* with the *Treaty of Lisbon* and take account of changes to the EU supervisory structure, advocates transitional measures that would enable the requirements of *Solvency II* (including those relating to equivalence for third countries outside the EEA) to be implemented in phases. It was adopted by the European Parliament on 11 March 2014.

Directive 2013/58/EU of the European Parliament and of the Council of 11 December 2013 introduced changes to the transposition and implementation dates established in the *Solvency II* directive. The date for the transposition of the directive was postponed to 31 March 2015; the date of repeal of the existing insurance and reinsurance directives was altered to 1 January 2016 and the new date of implementation of the directive is 1 January 2016.

Until *Solvency II* is implemented, *Solvency I* remains the prevailing EU solvency regime.

Reserve Requirements

Technical reserve provisions are established by the *Insurance Activities Act* and are calculated gross of reinsurance. Assets to cover these provisions (known as committed assets), however, are based on amounts net of reinsurance. Reserves must be established for:

- unearned premium (calculated pro rata)
- unexpired risks
- claims outstanding and assessed
- claims reported but not finalised
- claims incurred but not reported.

There is no set practice for claims reserving. As regards reserves for disability annuities relating to motor third party liability insurance, reserves are discounted but there is no uniform practice across the Estonian market. The insurance association is therefore trying to establish a standard approach and improve transparency.

In addition to the above, a statutory reserve capital of 10% of annual profit must be created until it reaches a sum equivalent to the share capital or as set out in the company's articles of association: this is intended to function in a similar way to a catastrophe or equalisation reserve.

Other reserves may be established subject to the approval of the Financial Supervision Authority.

The same requirements apply to reinsurers.

There are no changes to the current regulations being planned or discussed.

Investment Regulations

According to the *Insurance Activities Act,* investment of an insurer's/reinsurer's committed assets (and from 2014 share capital) shall be based on the highest possible level of security through diversification and adequate spread. Committed assets are those used to cover the company's technical provisions (net of reinsurance).

A company's committed assets may only be invested in instruments as set out in EU directives.

Retentions

According to the *Insurance Activities Act*, an insurer's retention (net of reinsurance) in any one insurance contract or risk is limited to 10% of shareholders' funds.

Insurance Premium or Policy Taxes and Charges

The following charges are applicable:

Insurance class	Description of tax or charge	%	To be paid by
All classes	Premium tax	Nil	n/a
Motor TPL	Levy to ETIF (guarantee fund)	EUR 38,347 (USD 51,820) per year plus annually variable percentage	Insurer

Source: Market sources

There is a variable levy on insurers which is used to finance the supervisory authority.

Legislative Update

There have been no recent changes in legislation affecting insurance taxation.

Withholding Taxes on Premiums Paid Overseas

There are no withholding taxes on insurance or reinsurance.

VAT

Estonia has a value added tax (VAT) system and VAT applies to repairs and rebuilding work. Insureds who are registered for VAT are able to reclaim the tax paid on property repairs, for example, and in such cases insurers only pay claims net of any VAT due. No VAT is payable on insurance premiums.

The standard rate of VAT was 20% in 2014.

Corporation Tax

In 2014 the tax rate was 21%. Corporate income tax is only due on the distribution of profit.

Technical reserves set up by insurers are tax-deductible.

Captives

There are no particular taxation issues affecting the use of alternative risk transfer (ART) or offshore captives by the local market.

There is no special tax regime to encourage the formation of onshore captives.

Summary and Trends

Whilst litigiousness was still not a major feature of Estonian culture in 2014, citizens are reputedly becoming ever more prepared to seek legal redress. Such a development has not been discernable from the insurance industry's perspective, however, within which most claims activity remains under motor third party liability (MTPL), and any changes are incremental rather than major.

The number of cases per capita remains very low compared with more developed markets and the numbers of claims and the amounts of compensation for bodily injury are also relatively small. Awards for pain and suffering continue to be modest; any increase may affect the amounts of general liability awards according to some observers but these will still remain low by western standards.

The streets of Tallinn exhibit a range of tripping and falling hazards that in other markets would give rise to claims for compensation for injury against the local municipality. Certain accidents, such as those caused by snow falling from roofs in the cold winters of 2010 and 2011, have been publicised widely, and raised awareness of the possibility of claiming compensation. Some observers felt that public attention would soon wane but consciousness of such events has become firmly embedded.

Basis of Legal System

The legal system is largely code-based with influences derived from Roman law and the *Code Napoleon*: there is a strict hierarchy of precedence of laws.

International treaty obligations, EU legislation and the Estonian constitution take precedence over all other legislation. Beneath these are the *Commercial* and *Civil Codes*, followed by laws, government decrees, ministerial orders and departmental instructions.

Legal liability in Estonia can arise from sources including the *Civil Code*, contracts and statutes, and the *Tort Law*. Strict liability is imposed by statute in motor third party liability insurance.

The *Law on Obligations* came into force on 1 July 2002, simultaneously setting out the rights and responsibilities of individuals and companies in detail and establishing new rights of action.

It is understood that in contract law there is a general statute of limitation of 10 years. For motor third party liability there are separate regulations concerning claims-reporting and rights to legal action: if an insurer or a person responsible for causing damage does not receive a compensation claim for property damage within 18 months, or a compensation claim for bodily injury within three years after the date of the traffic accident, neither the insurer nor the Estonian Traffic Insurance Foundation are obliged to pay any compensation.

Litigiousness

The Soviet legal system did not encourage individuals to make recourse to the law and was in many ways not a law-based system, as the executive was able to influence most legal decisions.

The Soviet system of damages relied heavily on the fact that the state looked after citizens, with the result that had a state-owned lorry killed a citizen, for example, the damages awarded would be the same as if the individual had been killed at work.

Despite more than two decades having passed since independence and the abandonment of Soviet-style compensation regulations, litigiousness in Estonia remains at low levels in comparison with more developed markets. Whilst people are becoming increasingly willing to seek redress through the court system, the numbers involved are still relatively small and are not generally related to bodily injuries.

The streets of Tallinn exhibit a range of tripping and falling hazards that in other markets would give rise to claims for compensation for injury against the local municipality. One reason given for the lack of such claims in Estonia, is that compensation largely relates to medical costs and loss of income; sums for pain and suffering are usually limited to motor third party liability claims and are relatively low.

In contrast, accidents such as ice falling from roofs and hitting passers-by during the cold weather which Estonia experienced in the winters of 2010 and 2011, have been reported widely. Some observers felt that public attention would soon wane but consciousness of such events has become firmly embedded.

It had been expected that amounts awarded for pain and suffering in motor claims would be increased and that, as claims development in general liability is related to that in MTPL, important changes would be seen. In 2014 it was reported that the new MTPL law would include a change in the scale relating to pain and suffering: the maximum level (out of five levels) of EUR 3,195 (USD 4,313) is planned to become a minimum amount but in order to be given a higher amount, a claimant would need to show that his or her pain or suffering is worth a higher sum than the minimum.

Access to the Courts

Legal costs do not impede access to the legal system in Estonia. As an indication, legal fees for a year's defence costs for one individual are put at around EUR 4,000 (USD 5,400): whilst this amount is beyond the reach of most individuals, less complex and time-consuming cases would entail commensurately lower fees.

Before a suit can proceed the plaintiff must deposit with the court a sum equal to 10% of the amount claimed. This is to deter frivolous claims, however, it can put off those with limited means.

Lawyers are remunerated on a fee basis; the contingency fee system is not illegal but is not used. Legal expenses insurance is in its infancy in Estonia.

Court Procedure

Local district courts are the courts of first instance, above which sit the appeal courts followed by the Supreme Court. Supreme Court judgements are published and provide written bases for courts' decisions. The Supreme Court is the highest judicial power in Estonia and is also the court of constitutional review.

There is a meaningful right of appeal and an independent right of judicial review of administration action.

Cases can take one or two years to reach a court decision and the process is considered to be slow and complicated.

Assessment of Compensation

Compensation for bodily injury in Estonia is modest by western standards and, discounting motor third party liability (MTPL), the number of cases involved is very small.

In the first instance the level of any compensation due under a liability contract is calculated by the insurer with reference to any tables in use which relate the actual injury sustained or degree of disability to the sum insured.

For MTPL claims there are more detailed regulations contained in the traffic insurance law which set out how compensation is calculated. Although this area of insurance is the most developed in terms of bodily injuries, the number of cases is still relatively low. Bodily injury claims are far outnumbered by those for property damage.

Disputes can arise over the degree of disability established. Should the parties involved fail to agree cases may be taken to court, but many cases are resolved by out-of-court settlements. There is little case law to support any legal decisions of this kind.

Compensation for bodily injury includes the following elements:

- financial loss arising from temporary disability (incapacity for work)
- financial loss arising from permanent disability (incapacity for work)
- expenses relating to the medical treatment of the injured party
- in the event of a fatal accident, the reduction or loss of income to a dependant, and funeral expenses
- pain and suffering arising from the injury (currently limited to EUR 3,195 (USD 4,318)).

The following are regarded as property damage:

- damage arising from injury to or destruction of property
- reasonable and necessary expenses relating to legal assistance and expert assessments.

Financial loss arising from temporary disability is calculated as follows: the amount of compensation is calculated on the basis of the average income (net of tax) per day, and based on the difference between the net income before sustaining the injury and the net income received during the period of temporary incapacity for work. The total amount of compensation is calculated by multiplying the number of days of temporary disability by the amount of compensation per calendar day as specified above, less the indemnities or compensation received under any other compulsory insurance or act.

With regard to financial loss arising from permanent disability, any person whose income decreases due to permanent damage to his or her health sustained as a result of a traffic accident has the right to receive compensation arising from his or her permanent disability. The amount of compensation per day is calculated as above.

Compensation for permanent disability is calculated per month by multiplying the amount of compensation per day by 30 and deducting from the result the monthly amount of any indemnity and compensation receivable on a continuous basis under any other compulsory insurance or act. Compensation for permanent incapacity for work is recalculated if the wages of the injured person increase and compensation receivable under any other compulsory insurance by the injured party as a result of the insurance case or the amount of any other benefit, indemnity or compensation changes, or if the injured party acquires the right to receive an old-age pension. Compensation for permanent disability is indexed to price increases and is paid on a monthly basis by the insurer. Lump sum payments are made for the costs of rehabilitation.

Compensation for medical expenses is payable including expenses relating to treatment, expenses relating to the purchase of medicines, transportation to and from the medical institution and other direct expenses not specified. Costs of treatment incurred by state hospitals are recoverable from insurers.

In the event of a fatal traffic accident, the following persons are entitled to compensation: the person who organises the funeral of the deceased and those whose income has been reduced as a result of the deceased no longer contributing to family expenses. Compensation is paid to each family member taking into account the following principles: the widow or widower, minor children, adult dependent children or parents, and other similar persons who are deemed to be dependants.

A pension will be paid by the insurer on a regular basis and is intended to compensate for the income of each family member as covered by the deceased. The head of the household is additionally compensated to the level of family expenses previously covered by the deceased. The amount to be paid is calculated by indexing the size of the pension payable to the price increase index.

Property is deemed to be destroyed if its restoration is technically or economically unjustified. Compensation in such cases consists of the usual value (the probable selling price) of the property immediately before the insured event and of the reasonable expenses relating to the removal of the property from the site of the traffic accident and to the disposal of the undamaged parts of the property.

Compensation arising from damage to property comprises expenses relating to the restoration of the property and other direct expenses borne by the owner in connection with traffic damage, including expenses relating to repair of damage intentionally caused to the vehicle in order to save the injured party after the traffic damage was caused, and expenses relating to the removal of the vehicle from the site of the traffic accident.

The manner of restoration or replacement of damaged property must be co-ordinated with the insurer. The expenses incurred have to be proven.

From 1 June 2012 MTPL limits have been raised to EUR 5mn (USD 6.75mn) in respect of bodily injury. In recent years most claims in Estonia have been far below these levels. Several bodily injury claims have been close to past indemnity limits but the largest is understood to be around EUR 500,000 (USD 675,000) in Estonia.

The increased indemnity limits might be expected to increase claims amounts accordingly, but, given the link between compensation and salaries (which will remain for the most part quite modest), claims amounts should not suddenly escalate. In 2014 it was reported that the new MTPL law would include a change in the scale relating to pain and suffering: the maximum level (out of five levels) of EUR 3,195 (USD 4,318) is planned to become a minimum amount but in order to be given a higher amount, a claimant would need to show that his or her pain or suffering is worth a higher sum than the minimum.

Claims for other classes can be higher and there have been a number of professional liability losses involving notaries of up to EUR 1mn (USD 1.35mn) but lower amounts are settled.

Death claims are in the range EUR 50,000 to EUR 100,000 (USD 67,500/USD 135,000); disability claims could reach a maximum of EUR 1mn (USD 1.35mn).

Punitive damages are not a feature of the Estonian legal system.

Historical Development

History

1832	The Livonian Society for Mutual Insurance of Crops against Hail was founded.
1862	The Livonian Mutual Fire Insurance Co was founded.
1919	Eesti Lloyd's was founded.
1936	The first Estonian insurance law was passed. Nine joint stock insurers and 10 mutuals were active together with 327 small local mutuals.
1945	Insurance was nationalised under the Soviet regime. Eesti Kindlustus was founded as the monopoly state insurer and was later to become part of the Soviet Union-wide Gosstrakh.
1989	The law on co-operatives permitted the establishment of the first co-operative insurers which were later transformed into joint stock companies. Insurance of state property was permitted.
1990 to 1991	Gosstrakh USSR was broken up into independent national companies. By early 1991 at least 17 joint stock insurers were established in Estonia. Eesti Kindlustus was transformed into a state-owned joint stock company in November.
1992	The first motor third party liability (MTPL) law was passed in June and the first insurance law in November.
1993	The Insurance Supervisory Authority (ISA) was established on 1 January. The MTPL law came into force on 1 October.
1996	The privatised Eesti Kindlustus (formerly Gosstrakh Estonia) was sold to Hoiupank.
1999	Polaris, Asa and Uhiskindlustus all went bankrupt.
2000	The new *Insurance Activities Act* came into force.
2001	The new *Motor Third Party Liability Act* came into force.
2002	The new *Law on Obligations* came into force.
2004	Estonia joined the EU on 1 May. A redrafting of the *Insurance Activities Act* was finalised and came into force in 2005.
2011	Estonia adopted the euro on 1 January.
2014	Regulations to implement the EU's *Solvency II* directive have been introduced in the latest version of the *Insurance Activities Act*, in force from 1 January 2014.

The Market Today

Summary and Trends

The Estonian insurance market is deregulated and, apart from the introduction of various compulsory classes of which the most important is motor third party liability, is free of state involvement.

Insurance Market Overview

Estonia's modern insurance industry has been in existence for about 20 years yet both the life and non-life insurance markets remain underdeveloped in many areas. In 2014, with economic recovery continuing, income levels are increasing slowly for both individuals and enterprises; insurance bought voluntarily is to some extent regarded as a luxury item. Obligations on consumers to purchase insurance therefore remain an important factor in market growth, but increased awareness of the benefits of insurance also plays a large role and this is now widespread, particularly among commercial buyers but also private individuals.

Compulsory motor third party liability (MTPL) is an important class of business and is second only to motor own damage within the non-life portfolio. Higher indemnity limits have come into force in 2012 following Estonia's transposition of the EU's *Fifth Motor Directive,* but as compensation is linked to salary levels, which are expected to grow very little, overall claims experience for bodily injury has not deteriorated noticeably. The claims burden related to third party property damage has eased as repair costs have fallen.

The MTPL market remains very competitive in 2014 but poor figures reported by insurers for MTPL in 2013 have led observers to suggest that the market should now stabilise and perhaps edge up.

Other areas in which there is an element of compulsion to buy insurance include householders' and motor own damage. Banks require an insurance policy to protect loan collateral and this segment of the market grew rapidly as lending to consumers increased.

In addition to insurance purchased as a condition of securing a loan, there is also insurance on a purely voluntary basis: penetration in the householders' insurance market is put at around 60% of insurable properties (and more and more properties are becoming insurable as their owners refurbish them).

As regards motor own damage, once a car loan is repaid it is still common for insurance to lapse (less than 50% of owners are said to continue with insurance), but despite this, motor own damage cover is the largest class in Estonia. Overall volumes have fluctuated over the past few years, as sales of new vehicles slumped and corporate buyers cut the cost of insuring their fleets during the financial crisis. Since 2012 the market has improved, with more sales of new vehicles but competition for motor own damage insurance remains keen.

Market penetration is much higher for commercial property than for private risks and external factors which have encouraged the buying of insurance have been important in the development of this class. If an enterprise is a foreign joint venture or otherwise has some foreign capital involvement, for example, then insurance is bought as a matter of course: if a local bank or investor is involved, by contrast, insurance is bought but protection is often limited to property. Smaller commercial risks with no bank loan are often uninsured.

The need for business interruption (BI) or other covers, which could keep a company in business, is not always fully recognised and only about 30% of the largest risks are said to have cover.

The largest industrial and commercial risks are often part of a multinational enterprise and are insured under a global programme. Local insurers are sometimes used to front this business but where the largest risks are concerned, the local market is often bypassed and insurance placed directly into foreign markets. One reason for this is the fact that as yet most local insurers, even those with a foreign parent, do not have any financial rating, and international brokers seek the best possible security for their clients.

Market figures underestimate the size of the market (by up to a possible 15%) because risks placed abroad are not reflected in premium income. Furthermore since Estonia acceded to the EU in 2004, there has been a reduction in the amount of fronting as insurers in the EU/EEA are able to operate directly in Estonia on a freedom of services basis. A much-reduced amount is still channelled through local insurers.

A law on compulsory workers' compensation insurance was expected to come into force as early as 1 January 2003 but introduction has been postponed in view of political difficulties. In early 2014 some observers declared that there was increasing pressure for this insurance to be introduced and that it was merely a matter of time. The same political sensitivities remain, however: employers see this as another cost burden while trade unions do not want to see the involvement of the private insurance sector. No material progress is expected before the next general election in 2015. Non-life income would be bolstered by compulsory workers' compensation insurance, but to what extent is unclear.

In the absence of any workers' compensation coverage there has been growth in the take-up of voluntary employers' liability cover, but the number of contracts is still relatively small. Other liability classes continue to be underdeveloped, with little claims experience to aid rating.

Marine, aviation and transit insurances make up a very small part of the market.

Market Size

The total market size in 2012 was broken down as follows:

	Life	Non-life	Personal Accident & Health	Total market
Premium in EUR mn	63.44	217.78	15.57	296.79
Premium in USD mn	81.51	279.82	20.00	381.33
% of total market	21.38	73.38	5.25	100.00

Note: due to rounding some totals may not equal the breakdown above.

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

New statistical information may have been included in the appendices.

Figures for three quarters of 2013 suggest the full year will show further growth of a similar amount.

These figures underestimate the true size of the non-life market, as some risks are placed abroad on a freedom of services basis. Whilst there are no official estimates, observers have suggested that premium equivalent to up to 15% of the non-life total is written outside the country through brokers or direct placements.

PA (officially a non-life class) includes all PA, disability and healthcare (minimal amounts) written by non-life insurers as well as that which life companies have written as additional benefits to the main savings contract.

In global terms Estonia's non-life market is small: in 2012 it ranked 89th in the world between Azerbaijan and Sudan. Among its Baltic neighbours Estonia's non-life market is smaller than that of Lithuania (80th) but bigger than Latvia's (100th).

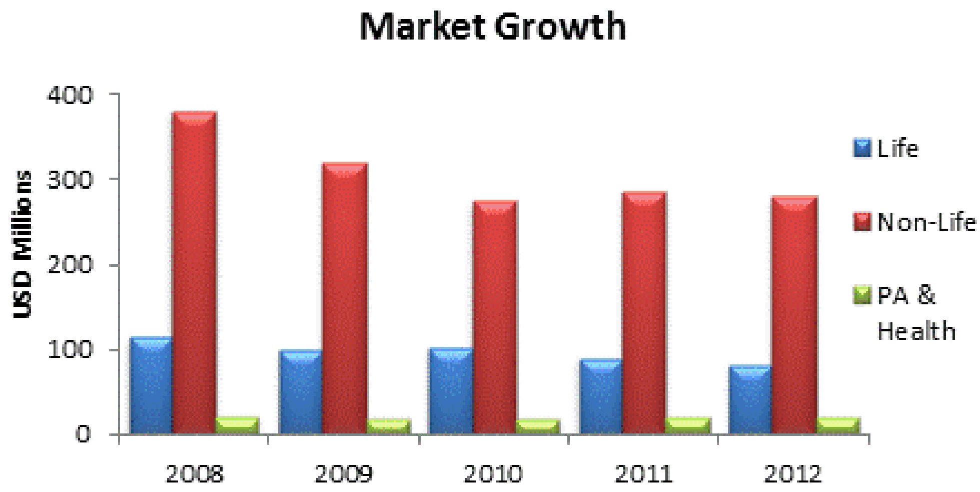
The following table compares the annual growth rates of non-life premium income in local currency with the nominal GDP growth and inflation rates over the last available five years.

	2008	2009	2010	2011	2012
Premium growth (%)	10.67	(11.53)	(9.22)	n/a	6.47
Nominal GDP growth (%)	2.47	(15.09)	4.09	13.15	5.79
Inflation rate (%)	10.37	(0.08)	2.98	4.98	3.93

*Note: * 2011 has been left blank as it was the year the currency changed from EEK to EUR.*
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

There is no exact correlation between economic growth and growth in the size of the non-life insurance market. Economic growth is a significant influence on the size of the insurance market but other factors, such as banks' need for insurance to protect loan collateral or leasing of new vehicles, are also important in stimulating or depressing the market.

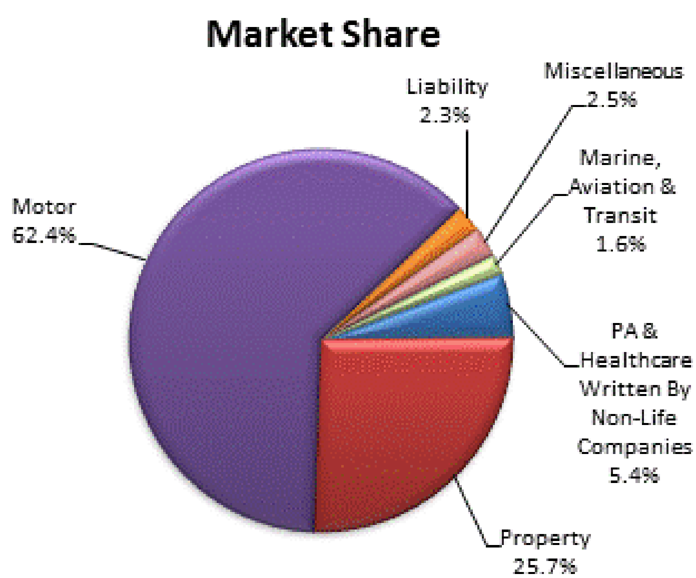
Growth in the non-life, life, and PA and healthcare markets is shown below and reflects the fluctuations in income resulting from the financial crisis.



Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

New statistical information may have been included in the appendices.

The division of the market in 2012 is shown below and shows the dominance of motor insurance.



Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Note: due to rounding the total may not equal 100%.
New statistical information may have been included in the appendices.

Market Penetration

Market premium as a percentage of GDP and expenditure on a per capita basis expressed in USD are shown below for the year 2012; comparisons are made with Latvia and Lithuania.

	Life including riders		Non-life (P&C)		Personal Accident & Healthcare*		Total	
	%	per capita	%	per capita	%	per capita	%	per capita
Estonia	**0.37**	**63.15**	**1.27**	**216.79**	**0.09**	**15.49**	**1.73**	**295.43**
Latvia	0.28	38.29	0.79	108.62	0.36	50.03	**1.43**	**196.94**
Lithuania	0.51	70.66	0.97	135.08	0.10	14.16	**1.58**	**219.89**

*Note: * PA & Healthcare data represents PA & Healthcare business other than life riders, whether written by life, non-life or specialist healthcare insurers. Details of the split of such business (where available) are included in Appendix 1.*
Due to rounding some totals may not equal the breakdown above.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies
New statistical information may have been included in the appendices.

Although the structure of the economy and insurance market in each of the Baltic states is fairly comparable, non-life penetration in all three countries varies, with Estonia the clear leader. This reflects the relative stages of economic development in each market. Per capita spending is substantially higher in Estonia. Healthcare is most developed in Latvia and accounts for the greater penetration and per capita spend.

Market Participants

Summary and Trends

In January 2014 there were 12 active non-life insurers in the market. Most companies are branches, are foreign-owned or have a significant foreign shareholding (mostly Nordic), and often form part of pan-Baltic and pan-Nordic insurance groups.

With recent changes in capital requirements and *Solvency II* approaching, the foremost insurers in the market have been re-organised into pan-Baltic insurance groups with Estonia as the domicile for leading insurers If P&C, Swedbank Vara, ERGO and Seesam.

Privatisation/Deregulation

The Estonian market is open to foreign insurers, which can set up subsidiaries or branches, or own shares in local companies. Government involvement in insurance is limited to supervising the market and passing laws on compulsory insurance only. There are no statutory tariffs.

State Insurance Companies

Apart from state-owned export credit insurer, KredEx (KredEx Krediidikindlustus) there are no state-owned insurance companies.

Market Structure

In January 2014 there were 12 active non-life insurance companies registered in Estonia, all of which were branches or joint stock companies transacting a range of non-life business. There was one specialist insurer in credit insurance and one specialist insurer in legal expenses. No company had a stock exchange listing.

With recent changes in capital requirements and *Solvency II* approaching, the foremost insurers in the market have been re-organised into pan-Baltic insurance groups with Estonia as the domicile for leading insurers If P&C, Swedbank Vara, ERGO and Seesam.

Estonian non-life insurance companies are owned mainly by foreign insurance companies or other investors. The following table shows the largest foreign companies and their foreign owners:

Local insurer	Majority foreign owner	Country
If Eesti	If Property & Casualty	Finland
ERGO Kindlustus	ERGO Group	Germany
Seesam	Pohjola	Finland
Inges	Ingosur	Russia
Salva	ING	Luxembourg

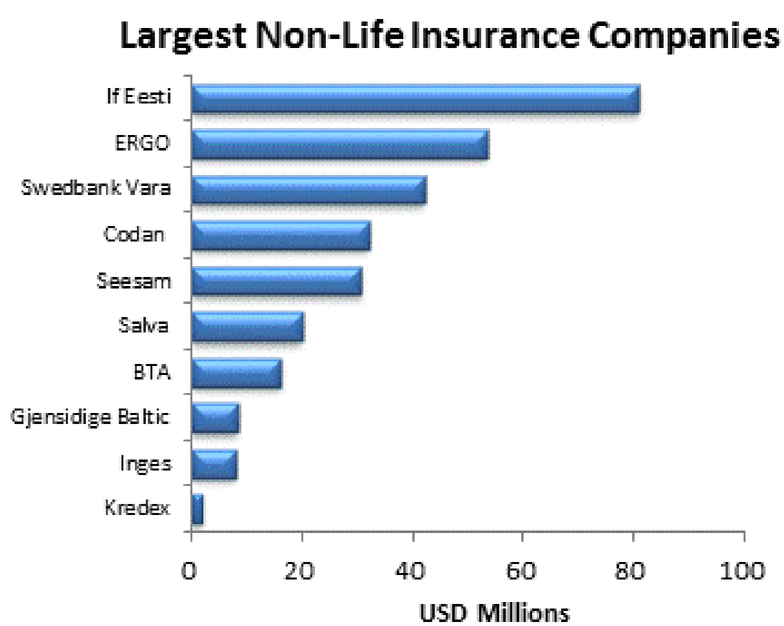
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

There are a few branch operations of foreign insurers such as Codan, Denmark (under the UK RSA brand); legal expenses specialist DAS, Germany; BTA, Latvia; and Gjensidige Baltic, Norway (formerly Parekss, Latvia). QBE has withdrawn from the market.

A small number of non-life insurers in Estonia have associated life insurance companies. The insurance groups which include both life and non-life insurance companies are as follows:

- ERGO - ERGO Life
- Swedbank - Swedbank Vara.

The leading insurance companies ranked by premium income are shown below.



Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

If Eesti is part of Nordic non-life insurer If Property & Casualty and its success has been based on its origins as Eesti Kindlustus, the former Estonian state-owned insurer founded in 1940. The Eesti Kindlustus merger with Finnish insurer Sampo Kindlustus brought to the new entity both an extensive agency network and the best-known name in Estonian insurance. The name was changed when the Sampo group joined pan-Nordic insurer, If.

The company has consistently had the largest market share in non-life insurance despite having seen a gradual decline in recent years.

If P&C is also present in the other two Baltic states as branch operations.

ERGO was founded on locally owned non-life insurers BICO and Leks and is part of the German-owned ERGO group. The company offers a wide range of non-life insurances. It is related to life insurer ERGO Elukindlustus and both have a common board for ERGO's insurers in the Baltic states.

ERGO has branches in Latvia and Lithuania.

Swedbank Vara Through its leasing company Swedbank Liising, Swedbank dominates the consumer finance market and provides over half of car and mortgage loans. In the past the bank's clients insured their vehicles or houses through its in-house intermediary with a few local insurers. Nowadays, however, clients are offered cover direct from the bank's in-house insurer Swedbank Vara, which has grown rapidly.

Swedbank Vara has branches in Latvia and Lithuania.

Codan (trading as **RSA**) is a branch operation of Codan, Denmark (part of the RSA group) and sister to Lietuvos Draudimas, Lithuania and Balta in Latvia. It has entered into a co-operation agreement with Estonian bank, SEB, which acts as its agent for non-life insurance.

Seesam was founded by US insurer AIG and Pohjola (Finland); the latter now owns 100% of the company, which now has branch operations in Latvia and Lithuania.

Salva is 45% owned by its founder Mr Pahapill. It developed a niche as the only "pure" Estonian insurer, but ING Luxembourg is now an important shareholder. The company's main line is motor third party liability and motor own damage.

BTA is a branch operation of the Latvian insurer.

A few other branch operations have been established and remain in 2014: **Gjensidige Baltic**, Norway, and **DAS**, Germany (legal expenses specialist).

Inges is a continuation of the former branch of the Soviet-era insurer, Ingosstrakh, and focuses on international trucking companies.

Lloyd's of London may handle Estonian business on a freedom of services basis (FOS); both **AIG** and **Zurich** are active in Estonia from Helsinki on an FOS basis.

In addition to the above insurers is the **Estonian Traffic Insurance Fund (ETIF)**, an organisation responsible for the administration of motor third party liability insurance and funded by a levy on premiums for this class. Market statistics prepared by the regulator show some direct insurance premiums for this organisation, but they are in fact cross-border business.

There are no captives, risk retention groups or underwriting agencies in Estonia. Brokers have limited binding authority for motor third party liability business only.

Market Concentration

The aggregate market share (%) of the top five and top 10 non-life companies over the last available five years is shown below and shows a reduction in the aggregate market share of the top five insurers.

Market segment	2008	2009	2010	2011	2012
Top 5 companies	84.94	82.80	84.21	80.10	80.71
Top 10 companies	99.08	99.01	99.54	98.90	98.98

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Company Changes

Polish insurer PZU entered the market as a branch operation in late 2012.

Austrian insurer Compensa has announced its intention also to join the market in the near future.

Total Assets

Total assets for the non-life insurers reporting to the Estonian financial supervisory authority over the last available five years are shown below.

	2008	2009	2010	2011	2012
Total assets (EUR mn)	346.90	413.78	475.87	525.57	534.87
Growth (%)	n/a	19.28	15.01	10.44	1.77

Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Meaningful commentary on these figures is not possible, given that the underlying numbers relate to business written in Latvia and Lithuania by the branch operations of those Baltic insurers domiciled in Estonia as well as local business. Also, the figures do not include assets relating to the branch operations of foreign insurers in Estonia.

Technical Reserves

Technical reserves (gross of reinsurance) as a percentage of gross premium for the non-life insurers reporting to the Estonian financial supervisory authority over the last available five years are shown below.

	2008	2009	2010	2011	2012
Technical reserves (EUR mn)	134.38	183.10	184.04	193.44	203.96
% of gross written premium	54.96	68.60	75.65	79.72	75.04

Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Meaningful commentary on these figures is not possible, given that the underlying numbers relate to business written in Latvia and Lithuania by the branch operations of those Baltic insurers domiciled in Estonia as well as local business. Also, the figures do not include reserves relating to the branch operations of foreign insurers in Estonia.

Expense Ratios

The following table shows the expense ratio (total expenses excluding commissions as a percentage of gross written premiums) for the non-life insurers reporting to the Estonian financial supervisory authority over the last available five years.

	2008	2009	2010	2011	2012
Expense ratio (%)	21.72	24.91	24.99	26.22	26.86

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Meaningful commentary on these figures is not possible, given that the underlying numbers relate to business written in Latvia and Lithuania by the branch operations of those Baltic insurers domiciled in Estonia as well as local business. Also, the figures do not include expenses relating to the branch operations of foreign insurers in Estonia.

Profitability

Underwriting results and pre-tax profits/losses for the non-life insurers reporting to the Estonian financial supervisory authority over the last available five years are shown below.

Year	Underwriting profit/loss (EUR mn)	% of net earned premium	Pre-tax profit/loss (EUR mn)	% of net earned premium
2012	31.87	12.71	48.54	19.36
2011	31.13	13.72	39.47	17.40
2010	27.64	12.07	35.00	15.29
2009	44.19	17.21	58.03	22.61
2008	34.14	15.63	34.34	15.72

Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Meaningful commentary on these figures is not possible, given that the underlying numbers relate to business written in Latvia and Lithuania by the branch operations of those Baltic insurers domiciled in Estonia as well as local business. Also, the figures do not include results relating to the branch operations of foreign insurers in Estonia.

Retentions

The following table shows the retention ratios (net written premiums as a percentage of gross written premiums) by major class over the last available five years and generally reflect the market's use of excess of loss reinsurance.

Line of business	2008	2009	2010	2011	2012
Property	87.32	86.83	91.52	91.36	91.15
Motor	89.54	90.90	93.73	93.83	94.86
Liability	73.15	76.83	82.07	83.24	85.04
Surety, bonds and credit	65.20	75.85	78.38	72.54	72.84
Marine, aviation and transit	69.70	62.58	78.61	89.42	88.51
Personal accident and healthcare	95.12	96.48	97.85	98.74	98.93
Total non-life market	**88.40**	**89.34**	**92.58**	**92.51**	**93.12**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Pools

There are no market pools in operation in Estonia.

Insurance Association

The Estonian Insurance Association (Eesti Kindlustusseltside Liit - EKsL)) has been in operation since 1993 and all insurance companies are members. The association's role is to:

- represent the insurance industry in legislative discussions with government
- represent its member companies' general interests in development of the insurance sector
- enhance the social and economic environment.

The association's secretariat has now been combined with that of the Estonian Traffic Insurance Fund (Eesti Liikluskindlustuse Fond - LKF).

Local Reinsurance Market

Summary and Trends

There are no professional reinsurance companies in Estonia and the country is not a market for international inwards reinsurance. Local insurers licensed to transact this type of business deal mainly with other companies within their group structure.

Local Reinsurance Company Operating Requirements

Companies wishing to transact reinsurance are treated like pure insurance companies apart from some minor requirements in respect of investments. Further details can be found in the Supervision and Control section of this report within the heading Company Registration and Operating Requirements.

There is no discrimination between foreign and domestic companies; capital, reserves and solvency requirements, as well as taxation, are the same.

Amendments to the *Insurance Activities Act* came into force on 1 January 2008 transposing *Directive 2005/68/EC* on reinsurance.

State Reinsurance Company

There is no state reinsurance company.

Local Reinsurance Companies

There are no professional reinsurance companies in Estonia.

Reinsurance Written by Direct Companies

ERGO shows some reinsurance business but this is intra-group.

International Reinsurance (Inwards)

Estonia is not a market for international inwards reinsurance.

Company Changes

There have been no recent company changes.

Local Reinsurance Arrangements

Summary and Trends

Reinsurance business is largely placed on an excess of loss basis.

Local companies are predominantly foreign-owned and parent insurers include all their Baltic subsidiaries in their overall reinsurance programmes.

As a result of the windstorm which hit the market in January 2005, catastrophe treaties are now widely arranged.

Results are understood to be good with few property claims of any size.

Regulatory Considerations

According to the *Insurance Activities Act* an insurer's retention (net of reinsurance) any one insurance contract or risk is limited to 10% of shareholders' funds.

Under the *Insurance Activities Act* insurers are not permitted to enter into reinsurance contracts of more than one year's duration or contracts which are not based on widely recognised actuarial principles. This prohibition was introduced to combat the possible transfer of assets from ailing insurance companies.

Otherwise there are no legal or regulatory restrictions on the placement of reinsurance.

There are no restrictions on the use of intermediaries in reinsurance.

Non-admitted

There are no restrictions on the use of reinsurers outside Estonia.

Overseas reinsurers do not have to be licensed, put up deposits or have a specific financial rating.

Insurers can take credit for accounting/solvency margin purposes for reinsurance (admitted or non-admitted).

Reinsurance Statistics

Almost all business is placed outside the country; some business is retained by the Estonian Traffic Insurance Fund (ETIF) but most is ceded abroad.

Premiums ceded by non-life insurers over the last available five years are shown below.

	2008	2009	2010	2011	2012
Premiums ceded (EUR mn)	28.35	24.90	18.05	18.17	18.70
% of gross written premiums	11.60	10.66	7.42	7.49	6.88

Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The following table shows the reinsurance ratios (premiums ceded as a percentage of gross written premiums) by major class over the last available five years, and reflects the market's reliance on excess of loss reinsurance.

Line of business	2008	2009	2010	2011	2012
Property	12.68	13.17	8.48	8.64	8.85
Motor	10.46	9.10	6.27	6.17	5.14
Liability	26.85	23.17	17.93	16.76	14.96
Surety, bonds and credit	34.80	24.15	21.62	27.46	27.16
Marine, aviation and transit	30.30	37.42	21.39	10.58	11.49
Personal accident and healthcare	4.88	3.52	2.15	1.26	1.07
Total non-life market	**11.60**	**10.66**	**7.42**	**7.49**	**6.88**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The following table shows the reinsurance loss ratios (reinsurance recoveries as a percentage of ceded premiums) by major class over the last available five years, and shows the excellent profitability of reinsurance business from the region.

Line of business	2008	2009	2010	2011	2012
Property	15.83	52.41	36.67	30.09	37.41
Motor	72.47	64.11	79.72	63.26	55.32
Liability	16.69	25.62	48.00	5.21	13.24
Surety, bonds and credit	15.13	201.09	10.54	9.40	19.35
Marine, aviation and transit	22.26	(3.56)	57.08	80.25	2.22
Personal accident and healthcare	23.90	27.96	45.26	21.90	8.85
Total non-life market	**51.18**	**59.97**	**59.17**	**42.93**	**39.73**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Since many insurers are foreign-owned, a considerable amount of reinsurance is placed with parent companies on both a treaty and facultative basis.

A proportion of this business is the fronting of multinational corporations' Estonian subsidiaries, with no local retention.

Retentions

The following table shows the retention ratios (net written premiums as a percentage of gross written premiums) by major class over the last available five years.

Line of business	2008	2009	2010	2011	2012
Property	87.32	86.83	91.52	91.36	91.15
Motor	89.54	90.90	93.73	93.83	94.86
Liability	73.15	76.83	82.07	83.24	85.04
Surety, bonds and credit	65.20	75.85	78.38	72.54	72.84
Marine, aviation and transit	69.70	62.58	78.61	89.42	88.51
Personal accident and healthcare	95.12	96.48	97.85	98.74	98.93

Line of business	2008	2009	2010	2011	2012
Total non-life market	**88.40**	**89.34**	**92.58**	**92.51**	**93.12**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Local Risk Sharing

There is little local coinsurance in the market, perhaps only two or three risks, and given the capacity available from parent companies, the major risks are usually written 100%. Where international markets such as the London market are involved, risks may be placed on a coinsurance basis outside the country.

Another reason for the lack of coinsurance is that, in a small market, insurance buyers and brokers are reluctant to block access to competitive quotations for risk renewal.

There are no market pools in operation in Estonia.

Treaty Reinsurance

For most classes the Estonian market uses primarily the major continental professional reinsurers such as Swiss Re and Munich Re. Some business is placed in the London market.

Local companies are predominantly foreign-owned and parent insurers include their Baltic subsidiaries in their overall reinsurance programmes.

Typical non-life reinsurance programmes are described below.

Property/CAR/engineering Per risk excess of loss treaties are placed. Capacity varies but one leading company has EUR 20mn (USD 27mn). Companies may also access parents' reinsurance programmes with substantial automatic capacity.

Treaties generally cover CAR/EAR separately but some are combined.

MTPL Motor third party liability cover is placed as follows: unlimited excess of an indicative EUR 250,000 (USD 337,800) for Green Card risks with EUR 2mn (USD 2.70mn) excess of EUR 250,000 for domestic coverage. Some facultative reinsurance is used for high value risks and for those excluded from treaty arrangements.

Liability proportional treaties (quota share, surplus) are currently placed but non-proportional covers are used to protect retentions. Indicative limits for one company are EUR 2.5mn (USD 3.38mn).

Travel quota share treaties are used and are often placed with specialist travel insurers abroad.

Marine cargo quota share treaties are common.

Multi-year or multi-class deals and deposits under treaties are not a feature of the market.

Facultative Reinsurance

The need for facultative reinsurance varies but is relatively low given companies' access to parent company capacity.

There is also a need for the placement of facultative liability risks. This is not so much due to capacity, but rather the number of cases falling outside the limited scope of cover granted.

Catastrophe Reinsurance

Until recently catastrophe excess of loss covers were not widely bought because natural perils were not thought to be a major exposure. The windstorm which hit Estonia in January 2005 changed this situation, however, and all companies now reportedly have such protection.

Cover bought includes motor casco as well as property risks and an indicative limit for one leading insurer is EUR 20mn (USD 27mn) per event. Another applies a PML of 2.5%.

Multi-year programmes have not been a feature of Estonian reinsurance.

Alternative Risk Transfer

There is no alternative risk transfer in the market.

Treaty Reinsurance Commission

Where proportional treaties are in effect, commission is in line with the requirements of international reinsurers.

Facultative Reinsurance Commission

Commission levels vary but commission is in line with the requirements of international reinsurers.

Distribution

There is one reinsurance broker domiciled in Estonia, RA Kindustusmaakler (formerly Vagner Re) but this company is active in the Russian and Ukrainian markets and not Estonia.

MAI Re, a broker based in Riga, Latvia, is active in placing reinsurance on behalf of Estonian insurers along with other reinsurance brokers.

There are no specific regulations for reinsurance brokers. Foreign brokers do not need to be registered or authorised locally.

Reinsurance is usually placed on a direct basis with brokers only involved to a minor extent.

Summary and Trends

In Estonia most business (57.5% as at mid-2013 according to market statistics) is placed on a direct basis (including through insurance company agents) with the balance (42.5%) controlled by insurance brokers. Within these two categories there are various sub-groups, outlined below.

If Eesti inherited a wide network of tied agents from the Soviet-era local Gosstrakh branch and this, together with its strong brand name, has ensured its dominant position in the market. Other companies have attempted to build up their own networks of regional offices but do not have the spread of If Eesti.

Companies do not limit distribution to in-house agents; they also use petrol stations, lottery outlets, car dealers, travel agents, security companies, real estate agents and post offices.

Banks/leasing companies have become a particularly important distribution channel for non-life insurance: in the past banks had in-house intermediaries working with leasing company subsidiaries to place motor insurance and these operations achieved a very large share of the market. The bank-owned non-life insurer, Swedbank Vara, has taken an important share of the market. Another bank (SEB) has abandoned its own in-house intermediary and now acts as an agent for an insurance company (RSA).

Brokers are very important: there are currently only three or four of any notable size, but a number of smaller companies have entered the market and their influence has grown.

Brokers have a significant share of the market in larger industrial and commercial risks. In this sector their major competitors are the corporate client departments of the major insurers which deal directly with the larger insurance buyers.

In mid-2013 some 42.5% of all non-life premiums were placed by brokers, almost 50% of motor own damage, about 65% of motor third party liability premium and around 30% of property insurance.

About 20% of premium handled by Estonian brokers includes premium placed abroad on a freedom of services basis.

Within the broker figure it should be noted that there is a sizeable internet element, produced by one broker (IIZI) which has a 30% share of the broker market by commission income.

Business produced through a bank/leasing company accounts for 30% to 40% of non-life premium; 1% to 3% is channelled through car dealers, 10% through retailers, 10% to 15% through the internet; insurance company agents and direct sales account for the balance.

The table below shows the percentage of premium written through various distribution channels for the last available year.

Line of business	Direct 2013 (%)	Broker 2013 (%)
Property	70.0	30.0
Motor own damage	50.0	50.0
Motor third party liability	35.0	65.0
Total non-life market	**57.5**	**42.5**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Direct Handling

Insurance sales representatives in Estonia are known as agents and are an important sales channel for simple risks. Agents are employees of insurance companies and are remunerated through a combination of salary and commission; insurers pay social tax on commission.

Sales staff can make up a very large proportion of insurers' personnel. If Eesti inherited the former state insurer Gosstrakh network, while other insurance companies have had to build up their own network of branches around the country.

In the Estonian market agents are employees of insurance companies and are classed as insurance intermediaries subject to *Chapter 10* of the *Insurance Activities Act*.

The major insurers have their own direct marketing departments to deal with the larger insurance buyers. These departments are also involved in providing insurance services to local subsidiaries of multinational corporations.

E-Commerce

Estonians have embraced the internet with enthusiasm, aided by government initiatives to facilitate its widespread use. An electronic signature law was passed in 2000 (current legislation is the *Digital Signatures Act*) and the use of internet banking, led by local banks Swedbank and SEB is extensive. In 2013 about 80% of the population were internet-users, and most of this number use online banking services.

Insurance companies have seen the internet as an effective and inexpensive way of selling personal lines business and have developed their websites for selling motor third party liability (MTPL), motor own damage, householders', travel and PA policies. The amount of business actually transacted in this way has been steadily increasing. There are no official figures but 10% to 15% of non-life premium is said to be placed through the internet, of which most (90%) related to MTPL.

While some insurers are keen to expand sales online, most insurers regard the internet primarily as a way to provide quotations and product information, with the actual sale being concluded by an agent in a branch office. Policies can be renewed by internet application.

To conclude a contract online proposers can either enter some basic details and be contacted by the insurer, or can log in through a bank's website using personal ID numbers or the identification service offered by the bank. If Eesti offers a full online sales service but also offers the proposer support from a call centre if required. Policies can be printed out or kept electronically; both forms are legally valid in Estonia.

If Eesti operates the poliis.ee website, a lean operator brand offering MTPL and motor own damage insurance only. The company has also pioneered access to insurance through smartphone apps: travel insurance can be offered by SMS if it is detected that the phone user is abroad. Since the launch of this possibility in 2010, over 10,000 policies have been sold in this way.

MTPL is the most popular product sold through the internet; this is attributed both to its simplicity and the fact that it is a legal requirement. In previous years concerns over fraud had made it difficult to sell motor own damage policies online. In 2014, while there is thought to be less moral hazard in Estonia, insurers still need to see the vehicle before cover is given: one insurer requests dated photographs from the proposer while others require the vehicle to be submitted for personal inspection.

One broker, IIZI, sells a range of personal lines and corporate classes, but mainly MTPL: the company has computer terminals in Estonian petrol stations and car registration offices to provide clients with access to the company's website. IIZI is the largest broker by premium volume, with a 30% share of the broker market by commission income.

Other Direct Marketing

There are no companies offering direct sales by telephone only, and few insurers have set up call centres; the main use of the telephone appears to be to arrange a meeting with an agent. There are no legal restrictions as regards direct marketing.

Bancassurance

There are no restrictions on cross-shareholdings between insurers and banks.

From the 2000s onwards sales of non-life insurance through banks have become increasingly important in the Estonian market.

The leading banks are Swedbank, SEB, Sampo Bank (part of Danske Bank), Nordea and DnB. All these have foreign shareholders which are Swedish, Danish or Norwegian. Swedbank and SEB have life insurance subsidiaries which sell predominantly through the banking network.

Banks have been involved with non-life insurance on a slightly more indirect basis than in the life market.

Swedbank for example owns a leasing/finance company (Swedbank Liising) which enjoys a substantial market share of over 50%. Until the bank set up its own in-house insurer (Swedbank Vara), companies or individuals buying a car or property on credit were directed to the company's in-house broker Baltic Insurance Brokers (BIB), in order to purchase the appropriate insurances. Swedbank Vara now enjoys a market share of 14% in 2013.

SEB used to have SEB Kindlustusmaakler, an in-house insurance agency fulfilling a similar role, but has now concluded an agency agreement with insurer RSA.

Nordea works with the If group around the region and with If Eesti in Estonia.

The largest insurance broker in Estonia IIZI works with Sampo Bank and LHV.

Insurance contracts sold through banks include householders' and motor insurance, (predominantly motor own damage, but some motor third party liability insurance). Payment protection insurance, mostly for credit cards, is sold in this way. Travel and PA are not particularly important to this distribution channel.

Banks and leasing companies cannot insist that clients take the insurance cover of the bank or leasing company's affiliated insurer, particularly if the bank has a dominant share of the market. Where a bank's market share is small, however, it can more easily direct business to its preferred provider by offering lower interest rates.

There are no official figures for the share of bancassurance in total non-life business. Market estimates suggest that business produced through a bank/leasing company accounts for 30% to 40% of non-life premium.

With the advent of *Basel III* approaching, bank-related insurers in the market are showing no concerns about any fundamental changes in their business.

Agencies

Independent insurance agents are not an important feature of the Estonian market but some business (around 10% to 13%) is produced by retailers, car dealers and petrol stations/garages. Some brandassurance products for various car manufacturers/marques are available and offered by a few insurers.

Insurance company agents are usually employees of one insurance company and are remunerated through a combination of salary and commission.

Only those who have received appropriate training in insurance may operate as insurance agents and they may place insurance contracts only with insurers that are licensed to operate in Estonia. The supervisory authority maintains a list of approved agents who have satisfied the relevant training and other requirements. Agents are required to keep records of the assets of policyholders and insurers in their possession.

Any insurance premiums paid by a policyholder to an insurance intermediary belong to the insurer, and insurance intermediaries must disclose the amount of commission the agent is being paid.

Insurance Brokers

The *Insurance Activities Act* includes a section (*Chapter 10*) on insurance intermediaries. The chapter makes the provisions set out below.

- The supervisory authority (FI) is responsible for registering insurance intermediaries (who must have minimum educational qualifications) and the supervision of brokers.
- Client monies must be kept completely separate from the broker's own assets.
- Brokers have to disclose commission to the client.

Professional indemnity insurance is required in accordance with EU directives.

Brokers are free to place risks with insurers in EU/EEA countries and beyond this area.

The Estonian Insurance Brokers Association (Eesti Kindlustusmaaklerite Liit) had 12 members in 2014, and including the main international brokers. There are a further 18 brokers operating in the market, 15 of which were formed in 2010. They are mostly small, one or two-person operations, acting more as agents than brokers.

The international brokers including Aon and Marsh are present in the market and along with Willis (through local representative, Vandeni) are involved with the largest industrial and commercial risks in the market. This business is either acquired by tender (sometimes annual) or as part of a multinational programme handled by an associated or other group company. IIZI, the largest broker, is also active in the commercial market segment and competes with the international broking companies.

The largest risks are either placed with local companies on a fronting basis (and reinsured by the same broker into international markets), or placed on a direct basis outside the country. The reason for doing so is the financial security of local insurers; none is currently rated and brokers are sensitive of the need to provide their clients with the best possible security.

In mid-2013 some 42.5% of all non-life premiums were placed by brokers, almost 50% of motor own damage, about 65% of motor third party liability premium and around 30% of property insurance.

About 20% of premium handled by Estonian brokers includes premium placed abroad on a freedom of services basis.

Within the broker figure it should be noted that there is a sizeable internet element, produced by one broker (IIZI) which has a 30% share of the broker market by commission income.

Apart from IIZI and the few international companies, most brokers are fairly small and have been formed by ex-insurance company sales representatives: these brokers are targeting small and medium-sized enterprises.

Binding authorities are technically not possible (according to the *Insurance Activities Act*) but some employees in a broking company are able to act as insurance agents for motor third party liability business and provide cover. IIZI acts as a cover holder for AmTrust in respect of deductible insurance.

The leading brokers by commission earned are shown below (latest available information).

Company	Revenue 2011 (EUR mn)
IIZI	4.26
Aon	1.29
KindlustusEst	0.97
Marsh	0.95
SEB	0.80
Vandeni	0.58
Vagner	0.47
Aadel	0.43
Kominsur	0.39
Colemon	0.37

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The major companies are described below.

IIZI kindlustusmaakler sells a range of personal lines and corporate classes, but mainly MTPL. The company has computer terminals in Estonian petrol stations and car registration offices to enable clients to access the company's website. IIZI is the largest broker by premium volume, with a 30% share of the broker market by commission income.

The company has over a quarter of a million customers including more than 30,000 business customers. It has subsidiaries in Latvia, Lithuania and Finland, but is strongest in Estonia. The company is a member of European broker network Eubronet.

The IIZI group consists of IIZI (insurance for corporate clients) and Insly (IT solutions for insurance brokers/companies - most brokers in Estonia use IIZI's systems). Insly also offers some wholesale insurance solutions.

Marsh (Marsh, US) aims for the largest risks in the market, where there is significant risk management, and it controls a substantial part of the industrial/commercial market, having gained control of the Baltic market's largest risk, Baltic Ship Repairers (BLRT Group).

Vandeni represents Willis.

Aon (Aon, US) provides insurance broking and risk consulting services for large and medium-size companies in Estonia. Affinity groups and employee benefits are the company's other main business lines.

KindlustusEst is locally owned and grew out of broker InBro. It is active in both life and non-life business.

The following companies should also be mentioned: **Vagner** which is part of the Wells Fargo network. **Foxtall** is a broker specialising in marine business but is also involved in the Baltic Ship Repairers account.

Relations between insurance companies and brokers have generally been good and a number of insurers rely heavily on brokers for their business; only those with their own agent networks or other sources of business can afford to risk antagonising them by suggesting that net pricing should be made compulsory.

The issue of net pricing has been discussed but has not yet been introduced. Since 1 July 2007 insurance brokers have been legally obliged to automatically disclose commission income and it is thought this will be the first step towards introducing net pricing. In early 2014, however, there had been no progress in this regard but brokers and insurers feel that this is only a matter of time.

Intermediaries' Commissions

The issue of net pricing has been discussed but has yet to be introduced. Since 1 July 2007 insurance brokers have been legally obliged to automatically disclose commission income.

Insurers sometimes quote premiums on a net basis and brokers then add their commission, otherwise a normal gross quotation is given; in either case the commission is usually 15% or 5% to 10% for MTPL.

Agents receive a combination of salary and commission, but as the insurer has to pay social tax on the latter, the levels are lower than for brokers at 4% to 12%.

There are no regulations pertaining to whether brokers can handle client premiums; some brokers do and some do not.

For major risks the largest brokers often work on a fee basis with one leading company reporting the proportion of income from fees at 50%.

Consumer Protection

There is a code of conduct for marketing non-life insurance.

Company Changes

There have been no major company changes.

International broker Greco (JLT Group) is reportedly planning to enter the Estonian market.

Multinationals, Captives, ART and Risk Management

Multinationals

Local Multinationals

The main local insurers, If Eesti, Seesam, ERGO and RSA are part of regional or worldwide networks and can offer multinational insurance programmes.

An increasing number of Estonian enterprises have operations in the other Baltic states, the Nordic countries and Russia, and several have arranged multinational insurance programmes.

Foreign Multinationals

There are many local representatives, subsidiaries and branches of foreign multinational companies in Estonia.

These risks are frequently covered under a global insurance programme; cover may be placed with a local insurer used to front this business, through the local representative of the main placing broker for the global programme, and the same broker then channels the reinsurance to the main risk carrier.

Some risks continue to be fronted despite the fact that since Estonia's accession to the EU, it has become easier to place business abroad on a freedom of services basis. There are several reasons for the continued fronting, including premium management, desire for local contact with an insurer and ease of claims handling. Some local insurers may retain a share or may cede 100%, depending on the size and nature of the risk. The main local insurers used for fronting are If Eesti, ERGO and Seesam.

Where the largest risks are concerned, the Estonian market is often bypassed and insurance placed directly into foreign markets. One reason for this is the fact that as yet most local insurers, even those with a foreign parent, do not have any financial rating and international brokers insist on the best possible security for their clients. Increasing amounts of business are reportedly being placed on a freedom of services basis.

Captives

Summary and Trends

Estonia is not a centre for captives and local enterprises do not use captives for their insurance risks. Foreign-owned risks, however, may use their captive facilities.

Local Legislation

There is no insurance or tax legislation either encouraging or discouraging the establishment of captive insurance companies.

Locally Domiciled Captives

There are no locally domiciled captives.

Local Captive Owners

Locally owned enterprises do not use captives for their insurance risks. Foreign-owned risks may use their parent company's captive facilities: Stora Enso the Finnish pulp/paper giant which owns sawmills in Estonia reportedly insures them with its captive.

A.R.T. & Risk Management

Summary and Trends

Alternative risk transfer (ART) is not a feature of the Estonian market and there is only a negligible amount of financial risk management. Where it does exist, risk management consists of traditional insurance. It is said that some ART solutions have been proposed to a few local enterprises but none have been taken up.

Supervision

There is no general supervisory authority control of policy wordings. When applying for a licence to transact insurance, insurers only need to include general insurance conditions.

The *Motor Third Party Liability Act,* however, states that policies offering this type of cover must be approved by the Ministry of Finance.

There is no requirement for rates to be filed or otherwise approved by the authorities.

Policy Wordings

To meet the requirements of the *Language Act* and *Consumer Protection Act*, consumer policies are written in Estonian, as are all policy wordings for compulsory insurances (such as compulsory motor third party liability). Translations for Russian-speaking clients are reportedly not uncommon.

Otherwise, there are no restrictions on policy language and this remains subject to the agreement of the parties to the contract. Foreign wordings are acceptable: London market cargo clauses are often used, for example. Similarly, broker wordings may be used.

There are no non-standard exclusions.

Policies issued to clients can be retained electronically with no paper copy required.

Local Insurance Law

The *Law on Obligations* sets out in detail the rights and responsibilities of citizens and corporations, and contains provisions relevant to insurance contracts. Some of the act does not apply to large commercial entities or certain types of commercially related insurance (as defined).

Policies already contain provisions dealing with the consequences of non-disclosure and subrogation. Unless otherwise agreed, territorial scope and jurisdiction are limited to Estonia.

The *Motor Third Party Liability Act* sets out the consequences of non-disclosure (a fine), policy terms and other such provisions.

The Financial Supervision Authority (FI) has issued advisory guidelines intended for insurers offering insurance services in Estonia. These guidelines cover the essential elements of drafting insurance contracts and are designed primarily, but not solely, to protect consumers.

By market practice legal costs, which are included in the indemnity limit, are limited to a percentage (frequently 10%) within the overall limit, or are subject to a fixed amount in addition to the indemnity limit.

Policy Issue

It is normally market practice for insurance policies to be issued in advance of inception date along with an invoice for the first premium payment.

Insurance Policies

From a legal standpoint policy issue is regarded as the offer of insurance by the insurer; this offer is deemed to be accepted through payment of the first premium instalment. There is no need for the insured to sign the policy wording. Policies issued to clients can be retained electronically with no paper copy required.

Policy wordings contain printed signatures on behalf of the insurance company. Proposers do, however, need to sign proposal forms.

When concluding contracts online proposers can either enter some basic details and be contacted by the insurer, or can log in through a bank's website using personal ID numbers or the identification service offered by the bank.

Certificates of insurance for MTPL are not required: access to policy data can be made online to the Estonian Traffic Insurance Fund (ETIF) which maintains the policy register.

Policy Currency

Policy currency is normally the euro but it is possible to use other currencies, for example US dollars.

Premium Payment and Terms

There are no legal requirements for the payment of premiums, other than those which apply under the *Motor Third Party Liability Act*, which details the consequences of failure to pay insurance premiums and allows a premium-free period during which the policy remains in force as long as the vehicle is not used. The standard market cash remittance period is 14 days.

The *Law on Obligations* contains general provisions relating to premium payment in *Articles 453* to *462*.

Premiums can be paid in instalments: quarterly, bi-annual or single payments are common methods and can be made by bank standing order, direct debit, cash or cheque. Monthly payments are possible for very large premiums. Where more than three instalments are involved, 5% interest is added typically as a credit charge.

It is normal market practice for insurance policies to be issued in advance of inception date along with an invoice for the first premium payment; there is no requirement for the due date to be the same as the inception date.

From a legal standpoint policy issue is regarded as the offer of insurance by the insurer; this offer is deemed to be accepted through payment of the first premium instalment. There is no need for the insured to sign the policy wording.

Cancellation and Renewal

Contracts are normally annual. Renewal is neither tacit nor automatic and one month's notice is usually given for cancellations. For some classes (motor and householders' for example), insurers offer automatic renewal to insureds at the anniversary date in return for a premium discount (some 50% of MTPL policies are on this basis).

Insurers can terminate policies after a claim has been paid, but otherwise the legislation does not provide for mid-term cancellation (apart from when there is no longer any insurable interest). Some insurers permit mid-term cancellation as a marketing tool but there is no automatic right granted.

The *Motor Third Party Liability Act* includes provisions on the policy term (which can be from one day to 12 months) and reasons for cancellation (failure to pay premiums).

The *Law on Obligations* provides for a 14 day "cooling-off period" for consumer policies.

Long-term agreements are not a major feature of the market but may be used for motor own damage contracts to match the length of any loan agreement (three years for example).

Types of Policy

There is a family policy in the market which can include property (buildings/contents), motor own damage, travel, personal accident and pet insurance.

Package policies are available for small and medium-sized commercial risks. These are pre-set combinations of property and liability for smaller commercial risks, and tailor-made for the bigger industrial accounts. One package for SMEs includes property, business interruption (both on all risks basis), electronic equipment and occupiers' liability.

Average

Property policies are subject to a pro rata average or underinsurance clause. For householders' policies some insurers only apply the average where the amount of underinsurance exceeds 30%.

Inflation

Insureds may raise the sum insured during the policy period subject to a pro rata premium increase. Alternatively some policies with automatic renewal offer indexation of sums insured.

Inflation is sometimes handled by expressing the policy limits in US dollars but inflation is not currently a major problem for Estonian insureds.

Earthquake and Other Geological Hazards

Exposure

Historically Estonia has been considered to be aseismic, but research published in the early 1990s (*Historical earthquakes in Estonia and their Seismotectonic Position*, authors Nikonov and Sildvee, published in *Geophysica* 1991), demonstrated that moderate earthquakes in the area were not unknown. Some notable events have occurred with intensities ranging from 3 to 6/7 on the MSK-64 scale.

While some of these events produced cracks in buildings, none caused widespread or severe damage to buildings. One event in 1858 caused tsunamis affecting the island of Hiiumaa: activity was concentrated in the western and northern parts of the country in coastal areas.

More recently, an event centred on the Russian enclave of Kaliningrad on 21 September 2004 sent aftershocks throughout the region and led some scientists to call for re-evaluation of the hazard. Estonia has three modern seismic recording stations, but it was reported that the equipment at one of these stations was unable to cope with the data from the 2004 incident because it had not been designed for an event of this magnitude. No property damage was reported in Estonia as a result of this event.

Accumulations and PMLs

Accumulations are not monitored as the risk of earthquake is not considered to be sufficiently great.

Limits and Scope of Cover

Earthquake and tsunami is a standard exclusion under Estonian property policies.

Rating and Deductibles

Earthquake and tsunami is a standard exclusion under Estonian property policies.

Loss History

There have been no earthquake losses affecting insurers.

An event centred on the Russian enclave of Kaliningrad on 21 September 2004 sent aftershocks throughout the region. No resultant property damage was reported in Estonia.

Utilities

There is no perceived risk to underground gas and oil pipelines as the risk of earthquake is minimal.

Disaster Planning

There is no earthquake disaster plan.

Windstorm

Exposure

Occasional severe windstorms and hail occur, to which most of the country is vulnerable due to its small size. As insurance penetration has been rising, in 2014 a sizeable proportion of windstorm losses would be covered by insurance: approximately 60% of insurable households currently have cover.

The storm of January 2005, which was part of the Erwin/Gudrun event which affected large parts of northern Europe, was one of the worst in Estonia for decades, and highlighted the risk of flood resulting from storm. The region most likely to be severely affected is the low-lying west coast, including the city of Parnu. Cliffs up to 130 feet (40 m) high protect much of the north coast.

There is no specific wind code. While modern buildings are more solidly constructed, the roofs of many older buildings may have been poorly maintained since the Soviet era and are particularly vulnerable.

Storms can also hit Estonia's forests and have caused serious damage: the forests tend not to be insured.

Severe winter weather can produce losses from snow pressure on roofs and other structures.

Accumulations and PMLs

Insurers used to feel that there was little chance of any serious storm loss to their portfolios due to the comparatively low levels of insurance penetration. Accumulations were not normally maintained and few bought catastrophe cover.

Following the major windstorm in January 2005, however, insurers now assess their own PMLs but there is no general market figure in use; to provide an indication one leading insurer uses a figure of 2.5% for a similar event with a return period of 20 years.

Reinsurers have tried to better understand what their exposure is: some are using their own models but there is a lack of historical data.

Limits and Scope of Cover

Most property policies include windstorm cover.

Storm cover is included in private property and motor own damage insurance as part of any natural perils or all risks coverage: this also includes flood/storm surge resulting from windstorm. Damage from ice or snow pressure is excluded.

There are no areas in Estonia for which cover is declined by the market.

Storm cover is available as an extension to the basic FLEXA policy or as part of the standard wording for commercial/industrial risks. Storm flood, however, is not covered and needs to be insured separately under a flood policy.

Storm is defined as wind travelling 21 metres per second or more, and hail cover is included.

Severe winter weather can produce losses from snow pressure on roofs and other structures. As a gesture to clients, insurers may regard such an incident as a sudden and accidental event (and therefore an insured loss) instead of a gradually acting cause.

Rating and Deductibles

As an indication, the additional rate charged for windstorm is 0.1‰ but lower amounts are often seen.

Deductibles are the same as those applied to the main property risk. For private property insurance, levels start at about EUR 200 (USD 270) with higher amounts seen (EUR 300 or EUR 600 (USD 405/USD 810).

Industrial/commercial deductibles are higher but at the lower end may start at EUR 500 (USD 675) for SMEs.

Loss History

Major loss history can be summarised as follows:

Date	Event name	Economic loss (EEK mn)	Economic loss (USD mn)	Insured loss (EEK mn)	Insured loss (USD mn)
8/9 January 2005	Erwin	1,000	80	38	3

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

There were three windstorm events in 2001, on 16 and 17 July, 1 November, and 15 and 16 November. High seas swamped the beaches in Parnu and winds brought down power lines, leaving 20% of the country without electricity. There are no official figures available for the market loss, but the insured amounts were minimal.

Hurricane Erwin, the worst windstorm for 40 years, hit Estonia on 8 and 9 January 2005, causing flooding and damage to property. The total insured loss was put at EEK 200mn (USD 15.87mn) of which 20% was attributed to wind damage.

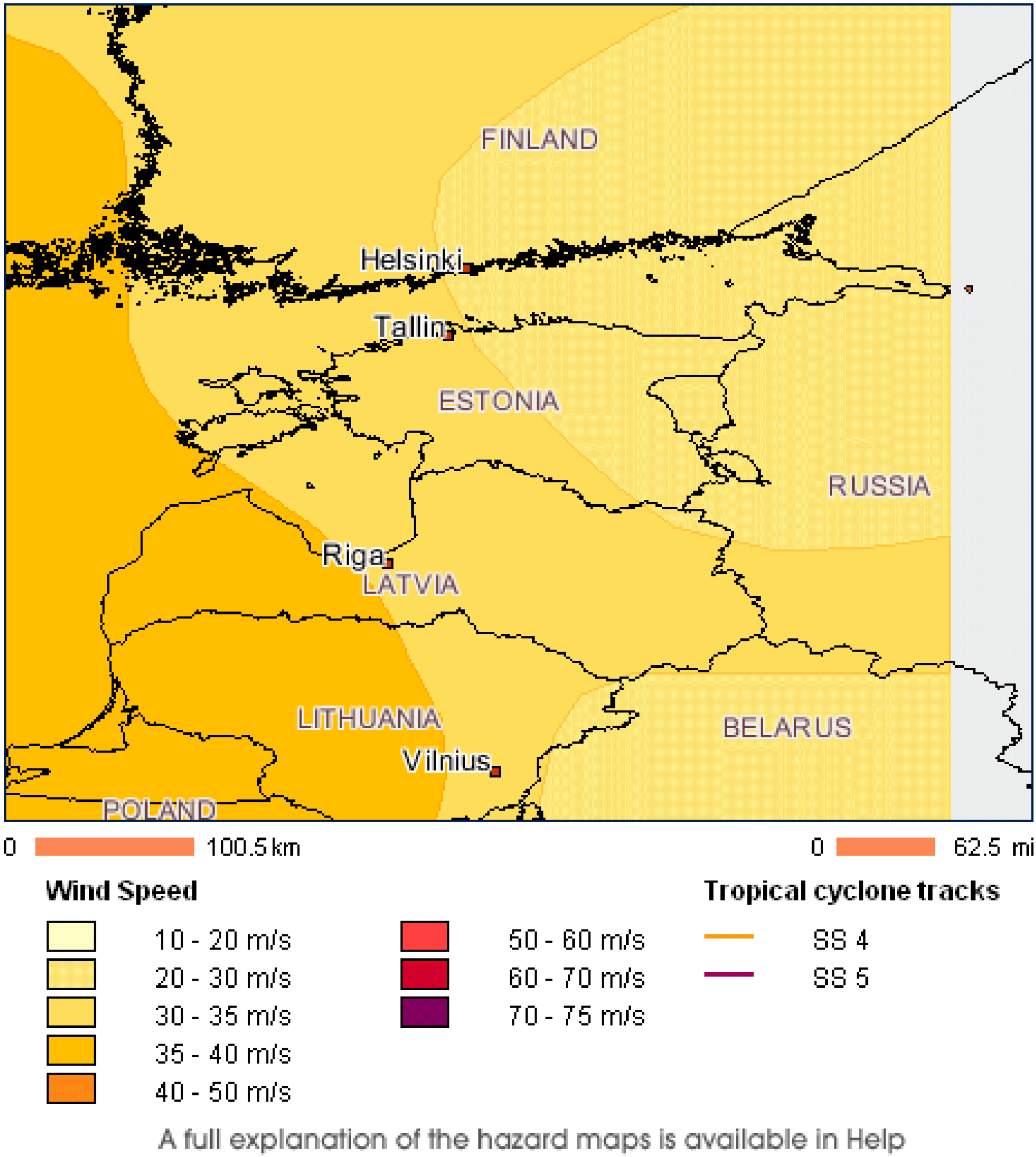
There were some sizeable individual losses resulting from the storm, including one of over EUR 1mn (USD 1.3mn) caused when ice floes blown by the wind, damaged buildings.

Zizi, a storm which caused extensive damage in central and eastern Europe in February 2008, did not affect Estonia to any meaningful extent. Windstorm Dagmar (Patrick) hit Estonia at the end of 2011 but although some homes lost power, damage was not severe.

The year 2013 saw several waves of strong winds crossing the country but while there was insured damage, the overall aggregate cost to insurers was not catastrophic, possibly totalling only a few million euros.

The winters of 2010 and early 2011 saw some losses from snow pressure on domestic buildings and some office structures.

CatNet(R) Windstorm Map



Source: Swiss Re CatNet(R) www.swissre.com
(c) Country map: GfK Macon AG

Flood

Exposure

A study commissioned by Estonia's Ministry of the Environment has mapped 20 areas in the country which are at significant risk of flooding; measures to reduce these risks have been developed. The greatest risk of flooding is connected to the poor state of flood barriers and similar structures: these are no longer able to slow the flow of water and need to be rebuilt, but this must be done in such a way that they can also be used to generate hydropower in the future.

There are two types of regions in Estonia which are at significant risk of flooding: coastal, river bank or shoreline areas where the risk is associated with rising water levels in the sea, rivers or lakes; and mainland areas where the risk is associated with the flood barriers situated on rivers and reservoirs. A unique problem for Estonia is the flooding that occurs in Ida-Viru County, which is connected to rising water levels in closed underground mines.

The coastal areas at significant risk of flooding include those around the bays of Parnu and Haapsalu, the southern coast of Saaremaa and the southern and western coasts of Hiiumaa.

Bank and shoreline risk areas include Lake Vagula-Tamula, Lake Ulemiste, some parts of Lake Peipsi, the lower reaches of the Parnu River, Emajogi River from Vorbuse to Kaagvere, Vohandu River from Lake Vahula to Kirumpaa, and the Narva River from Vasknarva to the village of Jaama.

Flood barriers where there is a risk of flooding include those of the Narva hydro-electric power station (HPS), Linnamae HPS on the Kunda River, Kamari HPS on the Poltsamaa River, Saesaare HPS on the Ahja River, Tudulinna HPS on the Tagajogi River and Kotka HPS on the Valgejogi River.

Insurers usually avoid those areas which might be prone to flooding.

Estonia has a long coastline on the Gulf of Finland: while the west coast (including the city of Parnu) is low-lying, the north is protected by cliffs up to 130 feet (40 m) high.

Flooding was not considered locally to have catastrophic risk potential, but this view was changed by the storm which hit Estonia in January 2005, which caused flooding in Parnu.

The need for flood cover varies across the country as not all areas are equally exposed to the risk. Where there is a risk of flood damage, it is reported that around half of commercial risks have flood coverage.

Accumulations and PMLs

Insurers had felt that there was little chance of any serious storm loss to their portfolios, as insurance penetration has been comparatively low. Accumulations were not normally maintained and few bought catastrophe cover.

Following the windstorm in January 2005 (part of the Erwin event which affected large parts of northern Europe), however, insurers now assess their own PMLs but there is no market figure in use.

Reinsurers have tried to better understand what their exposure is: some are using their own models but there is a lack of historical data. One estimate suggests that a return period for a similar flood event affecting Parnu could be 50 years.

Limits and Scope of Cover

Flood cover is not normally included in householders' insurance, but the events of January 2005 led insurers to clarify the position as regards flood resulting from storm. It is now accepted by the market that flood resulting from storm (winds over 21m/second) is covered.

Cover for other flood is only available by extension. For some package covers, flood is included, but not unless it is considered to be "unexpected and unforeseen", meaning that no flood has occurred at the insured location during the previous 10 years.

As regards commercial and industrial risks, all flood, including storm flood, is excluded but given as a separate cover and subject to individual underwriting. All risks cover excludes flood unless it is written back especially.

The need for flood cover varies across the country, as not all areas are equally exposed to flooding. Where there is a risk of flood damage, it is reported that around half of commercial risks have flood coverage.

Flood cover offered by one company is subject to a basic sub-limit of EUR 65,000 (USD 87,838) with sums of up to EUR 2mn (USD 2.70mn) possible.

Rating and Deductibles

The additional rate charged for flood is subject to competitive pressures but can go up to 0.1‰ for the basic sub-limit of EUR 65,000 (USD 87,838). For sums of EUR 2mn (USD 2.70mn), the rate is 0.3‰ or 0.4‰.

Rates are doubled in cases where the risk is located within 820 feet (250 m) of the west coast or a river.

Deductibles are the same as those applied to the main property risk. For private property insurance, levels start at about EUR 200 (USD 270) with higher amounts seen (EUR 300 or EUR 600 (USD 405/USD 810).

Industrial/commercial deductibles are higher but at the lower end may start at EUR 500 (USD 675) for SMEs.

Loss History

In the summer of 2003 rainfall led to flooding in the Kohtla Jarve area. The flooding was worsened by poor drainage in the area; sewer systems had not been maintained and were unable to handle the volume of rainfall. There are no figures for the economic loss but the largest insured loss was put at EEK 1mn (USD 72,993).

This loss was eclipsed by Hurricane Erwin, which brought the worst storm for 40 years, hitting Estonia on 8 and 9 January 2005, and causing flooding and damage to property. The total insured loss is put at EEK 200mn (USD 15.87mn) but 80% of this was attributed to flood damage, particularly in Parnu and Haapsalu. The water level in Parnu was the highest recorded since systematic observations started in 1923.

Recent losses are shown in the table below.

Date	Event name	Economic loss (EEK mn)	Economic loss (USD mn)	Insured loss (EEK mn)	Insured loss (USD mn)
8/9 January 2005	Erwin	1,000	80	160	13

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Bushfire

Exposure

Forest fires occur sporadically, usually without insurance cover.

Subsidence

Exposure

Subsidence is a minor exposure in Estonia.

Limits and Scope of Cover

Subsidence ("movement of soil') is normally excluded.

Loss History

Some newly built houses have suffered damage from the drying out of the land on which they were built. Although such losses are not insured, some claims have been settled on an ex gratia basis.

Hail

Exposure

Hail is covered as part of the storm extension to property policies but most claims come from motor own damage contracts.

Property

Summary and Trends

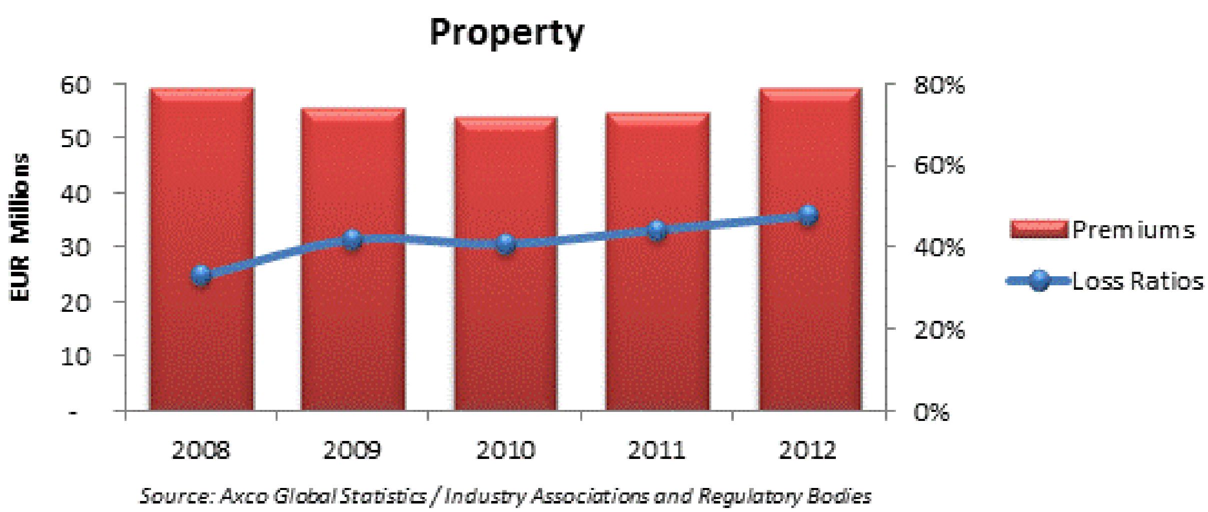
In 2012 property insurance premium amounted to around 26% of non-life income, up slightly on 2011.

Penetration in property insurance varies. In the householders' insurance market it is put at around 60% of insurable properties (and more and more properties are becoming insurable as their owners refurbish them). It has become standard practice for larger enterprises to buy industrial/commercial property insurance: related classes such as business interruption are still not widely purchased. Small commercial risks are often not insured but medium-sized risks are more likely to be, particularly if a bank loan is involved.

Competition in industrial and commercial business has been strong. Rates rose by around 20% in the early 2000s, but have since steadily declined. Rates for simple risks have remained relatively stable.

Statistics

Gross written premiums and loss ratios for the last available five years are shown below.



Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.
New statistical information may have been included in the appendices.

These figures include CAR/engineering business.

Major Insurers

The leading property insurers and their market shares are shown below.

Company	Market share 2012 (%)
If Eesti	34.55
ERGO	15.88
Swedbank Vara	14.97
Seesam	12.63
Codan	10.42

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Construction and Prevention

Building Regulations

The latest building code is contained in the *Building Act* effective 1 January 2003 which harmonised Estonian standards with those in the EU. The *Building Act* lays down rules for the design and safety of buildings and their components.

Building standards for new construction in Estonia were already being improved towards Scandinavian levels of quality, and the most recent legislation is promoting further progress.

Built Environment

Since independence, construction standards have been similar to those in western Europe both in methods and building materials, and modern industrial/commercial premises compare with those constructed in the Nordic area generally.

The centre of Tallinn dates back to medieval times, with brick and stone buildings similar to those of the same date in Germany and Sweden. There are a number of old, single and multi-occupant wooden houses situated in both the city centre and suburbs, many of which are poorly maintained and offer a high risk of conflagration. Unless they have been renovated (and many are being renovated), these properties are uninsured.

There are a small number of modern high-rise office and hotel blocks (such as the Radisson SAS, Olumpia Hotel, SEB, Arikeskus and City Plaza) which are 20 storeys or more high.

The suburbs of Tallinn and the towns of the north-east are dominated by Soviet-style apartment blocks of concrete and breeze block construction.

The Tallinn municipality has sold off its residential properties and formerly state-owned housing stock has been largely privatised under the control of commercial property companies.

Building Cost Index

The following table shows the building cost index for the last available five years, with 2010 as the base year (100).

	2008	2009	2010	2011	2012
Building cost index	155.90	109.43	100.00	127.33	151.00

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Fire Brigades

The fire brigade (part of the Emergency or Rescue Service) is fairly efficient. Tallinn has relatively modern equipment and city brigades are improving every year, however, some rural forces are still in need of modernisation.

Works fire brigades are normally limited to the largest western-owned risks, as few enterprises have the resources to pay for them.

Dry risers are fitted in the few modern high-rise buildings. Water shortages are infrequent in major towns but can be a problem in rural areas. The old town of Tallinn has very restricted access and many streets are narrow.

Physical Risk Management

Risk management remains underdeveloped but is continually improving under the influence of foreign investment and foreign brokers/insurers.

It is said that while no professional risk managers are employed in Estonian industry, 40% of the leading 300 companies do undertake some form of risk management. One reason for this is that small and medium-sized enterprises buy only property insurance; they therefore see little need for risk management, which is regarded as an extra cost.

There is no risk management association.

Risk Quality

Fire prevention advice is available from the fire brigade and from some insurance company surveyors.

Sprinkler systems together with other hand-held fire extinguishing appliances, are in widespread use for major industrial and commercial premises but not hotels, in which fire alarms and smoke detectors appear to be the minimum. In many cases old fire protection systems have been replaced by more modern equipment but the installation of pumps and electrical supplies is not always upgraded. It is a legal requirement for households to install smoke detectors.

There is some concern about the ignorance of fire-fighting procedures among employees and the lack of any disaster recovery plans: these factors have exacerbated otherwise minor losses.

Insurers require basic security (fire and burglary) systems as a minimum for larger enterprises. If clients fail to comply then insurers may refuse cover, restrict coverage or impose much higher deductibles (by a factor of three).

Social Hazards

Burglary

Burglary is a problem in some parts of Estonia, particularly in urban areas, but incidence varies with the economic situation. The incidence of burglary might have been expected to rise as a result of the recent economic downturn which hit the country, but in recent years, insurers have not reported any meaningful recession-related increase.

Insurers usually insist that commercial clients have minimum basic security systems. If clients do not comply, insurers may refuse cover, restrict coverage or impose much higher deductibles (by a factor of three).

Burglary is written as an extension to the commercial property policy, with premiums dependent on location and the nature of any goods at risk. As the burglary rate can be double the property rate, a substantial proportion of total property premium can be attributable to the burglary element.

Burglary is a standard part of the householders' package policy.

Arson

Arson in Estonia occurs more often as a result of fraud than malice. In many cases, however, it is not known whether the cause of loss was deliberate or not.

Strikes, Riots and Civil Commotions

Strikes, riots and civil commotion (SRCC) cover is not given as such, as it is usually excluded from reinsurance treaties. Malicious damage is covered as an extension to the property policy and covers "wilful acts by third parties intended to damage or destroy property". Cover is limited by some insurers but not by others. Tallinn's old town, with its shops and restaurants, is reportedly one area where almost all insureds have opted to extend their cover to include malicious damage.

Demand has been low, as the risk exposure was thought to be small. Prior to 2007 there had been periodic tensions between central government and the Russian-speaking population of the industrial north-east, but this had not led to any civil unrest.

In late April 2007, however, riots broke out in Tallinn on consecutive nights, triggered by the government's plan to remove a World War 2 statue (dedicated to Red Army soldiers who died fighting the Nazis). Many premises were damaged as groups roamed the streets, breaking shop windows and looting stores. Disturbances also spread to the predominantly Russian towns of Kohtla Jarve and Johvi, east of Tallinn.

The Estonian government felt that the riots' underlying cause was political and therefore covered the insured losses disbursed by insurers, which were put at EEK 23mn (USD 2.01mn). The economic loss was much higher, at EEK 92.26mn (USD 8.07mn) of which EEK 28mn (USD 2.45mn) was paid in compensation for damage occurring in Tallinn and Johvi.

Terrorism

Political or religious terrorism is not a problem and is not regarded as an issue for Estonian insurers. While there is some potential for political discontent among the Russian-speaking population, prior to 2007 there had been no violent manifestation of this but in April of that year ethnic Russians rioted in Tallinn and other towns in protest at the removal of a war memorial.

Cover for terrorism is excluded, but there is very little interest in buying it back.

Estonia's most serious bomb attack occurred in 1994, when the offices of Estonian Air and neighbouring buildings on the edge of Tallinn's old town were damaged. This was a criminal act, however, and was not political.

In May 2000 an extortion attempt on the Stockmann department store involving small bombs resulted in two minor explosions; this caused little damage but resulted in a substantial claim for business interruption.

There is no terrorism pool in Estonia.

Householder/Homeowner

Summary and Trends

Property insurance for individuals accounted for around 15% of the non-life total in 2012.

Premium income remained relatively stable during the recession, with no sizeable reductions seen. Since 2011 market observers suggest that the portfolio has seen some growth in policy numbers, citing some renewed confidence in personal finances among those borrowing for a new house/apartment, alongside increased insurance awareness among apartment owners and in particular a desire to obtain liability cover.

Penetration in the householders' insurance market is put at around 60% of insurable properties (and more and more properties are becoming insurable as their owners refurbish them). The overall percentage of households with insurance cover varies between houses and apartments. A large proportion of house owners (who tend to be more prosperous) buy householders' insurance; one estimate suggests 80% of house owners but this is thought by many to be too high, and may apply to houses bought with a bank loan. By contrast perhaps only 30% to 40% at most of apartment dwellers (out of a potential 450,000 units) are protected. Much of the housing stock is said to be uninsurable due to age and state of repair.

Contents insurance remains difficult to sell. A new product launched by Swedbank Vara in 2008 uses the number of rooms in a standard apartment as the basis for setting sums insured and has opened up a new market segment: the over 50s who had not previously bought insurance but have taken out insurance during a visit to the bank's branch.

Banks have helped enormously in the growth of this market segment by insisting on insurance as protection for loan collateral. People prefer not to rent if possible and as there has been a huge expansion of mortgage lending in the last decade or so, the number of homeowners (and householders' insurances) has risen accordingly.

Since 2009, with the effects of the recession being felt, the bank-related insurance portfolio has remained relatively stable as the need to keep property insured continued. Despite economic recovery underway since 2011, the volume of loans has not been increasing, but remains fairly static.

Clients are said to be very loyal with the average policy understood to be around five years old.

While it does exist, competition for householders' business is not as intense as in some other classes, such as motor own damage: this is attributable to the low level (in monetary terms) of premiums, which means that buyers are less price sensitive and brokers are less interested (because commission income is low). Rates have reportedly declined over the last decade, but as values at risk have gone up, so premium volumes have increased. At the same time insurers feel compelled to expand the scope of cover (to include moveable contents, for example).

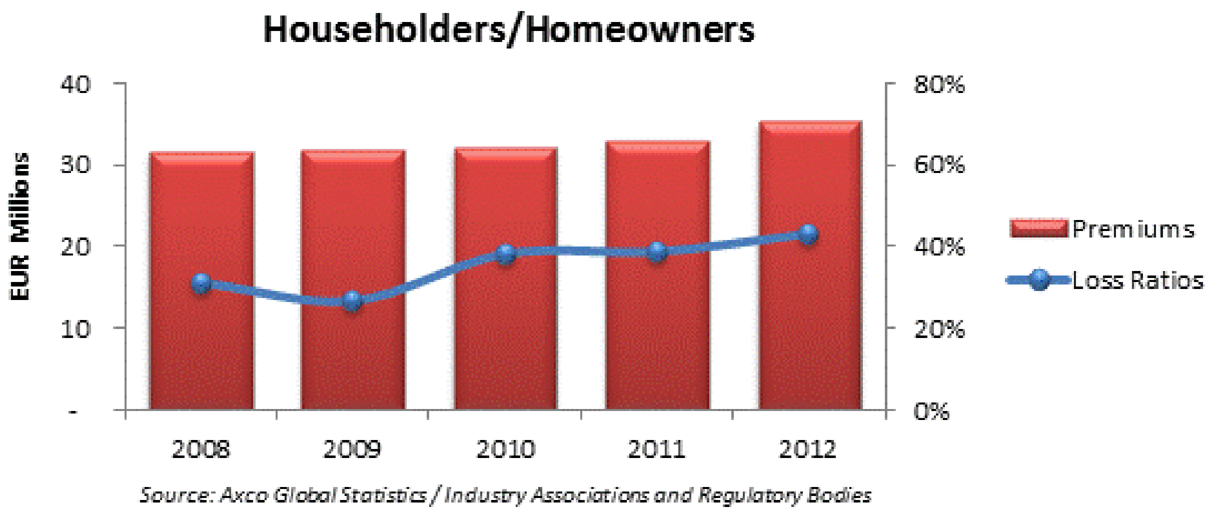
Swedbank accounts for a major part of the mortgage loan market and has been assiduous in exploiting this advantage in insurance terms. The bank has now set up its own insurance company, Swedbank Vara, which now enjoys a notable market share.

State and municipality-owned apartment blocks have been privatised and are typically insured by the real estate companies which now own them. Income from this source is shown in the figures for industrial/commercial business.

Estonia joined the euro on 1 January 2011. In converting kroon into euros for consumer policies, insurers have tended to convert sums insured or deductibles precisely, without any rounding upwards, in order to avoid potential accusations of changing the amounts in their favour, but as policies renew, some sums are being rounded, but in 2014 this is still not seen universally.

Statistics

Gross written premiums and loss ratios for the last available five years are shown below.



Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.
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Limits and Scope of Cover

Estonia joined the euro on 1 January 2011. In converting kroon into euros for consumer policies, insurers have tended to convert sums insured or deductibles precisely, without any rounding upwards, in order to avoid potential accusations of changing the amounts in their favour, but as policies renew, some sums are being rounded, but in 2014 this is still not seen universally.

Package policies are normal and usually cover named perils; fire, lightning, explosion, aircraft damage (FLEXA), water damage, windstorm/hail and malicious damage. All risks insurance is offered by Swedbank Vara, If Eesti and Seesam, and is becoming increasingly popular.

Storm cover includes flood/storm surge resulting from windstorm: damage from ice or snow pressure is excluded.

Some companies offer a liability extension of between EUR 3,500 (USD 4,730) and EUR 65,000 (USD 87,840) or more with EUR 7,000 (USD 9,460) as an indicative average, for an additional premium. This covers liability as owner or renter.

Multi-class policies are not typical but there is a family policy which can include property (buildings/contents), motor own damage, travel, personal accident and pet insurance.

The basis of indemnity for buildings is the reinstatement value (rebuilding in the same place and to the same condition) with a reduction for depreciation if the building is over three years old. The Supreme Court has ruled that insurers must reimburse reinstatement costs, even if the insured declares that it has no intention of rebuilding.

For some insurers the basis is the replacement value (the cost of the acquisition of new and equal property to replace the insured household property) or the market value (the local average sales price of household property upon entry into an insurance contract).

Some insurers offer full value insurance for buildings (the sum insured is not indicated in the insurance policy and in the event of loss/damage the insurer ensures the restoration of the apartment or building to its former condition).

For contents, insureds supply sums for different categories (including furniture, lighting, clothes, sports/leisure items, works of art) based on market value.

A product offered by Swedbank Vara uses the number of rooms in a standard apartment as the basis for setting sums insured, and has proved popular for Swedbank clients.

Rating and Deductibles

Estonia joined the euro on 1 January 2011. In converting kroon into euros for consumer policies, insurers have tended to convert sums insured or deductibles precisely, without any rounding upwards, in order to avoid potential accusations of changing the amounts in their favour, but as policies renew, some sums are being rounded, but in 2014 this is still not seen universally.

For houses, indicative annual premiums (EUR) are as follows in 2014 (both 250 sq metres):

- stone/wood construction - EUR 394.80 (USD 533)
- wood construction - EUR 454.80 (USD 614).

For apartments indicative annual premiums are EUR 94.80 (USD 128) for one room, EUR 142.80 (USD 193) for four rooms or more.

For private property insurance, levels start at about EUR 200 (USD 270) with higher amounts seen (EUR 300 or EUR 600 (USD 405/USD 810).

The following is an indication of overall rate movements in recent years (base 100 in 2006):

Homeowners risk rate movements	
2013	70
2012	75
2011	80
2010	85
2009	91

Source: Market sources

Loss Experience

The main causes of loss vary according to the type of property. In apartments, the main cause of loss (60%) is water damage, attributed to Soviet-era pipes: the problem has improved somewhat as privatised apartment blocks are renovated. Fire is also a major cause, particularly in houses.

Arson accounts for a number of losses to houses. Burglary affects shops and apartments. The incidence of burglary might have been expected to rise as a result of the economic downturn which recently hit Estonia, but since 2011 insurers have not reported any meaningful recession-related increase.

Windstorm caused some losses in 2001 but the amounts involved were minimal. More extensive damage was caused in January 2005 and was reflected in increased loss ratios for that year.

Claims from the liability element of householders' insurance had been rare but are becoming more and more common, notably as a result of water damage.

Loss ratios have been excellent, even in 2005. Expense ratios have sometimes been higher.

Reinsurance

Householders' insurances are kept for net retention or are reinsured under companies' main property reinsurance programmes.

Until recently catastrophe excess of loss covers were not widely bought because natural perils were not thought to be a major exposure. The windstorm which hit Estonia in January 2005 changed this situation, however, and all companies now reportedly have such protection.

Cover bought includes motor casco as well as property risks and an indicative limit for one leading insurer is EUR 20mn (USD 27mn) per event. Another applies a PML of 2.5%.

Multi-year programmes have not been a feature of Estonian reinsurance.

Major Insurers

The major insurers of householders' business are If Eesti, Swedbank Vara, Codan (RSA), ERGO, Seesam and Salva.

Distribution

Companies' agents form an important distribution channel for this class but bank-related business is also important: Swedbank Vara's business is derived from its banking parent, while SEB has transferred its portfolio from its in-house broker to Codan (RSA). The internet is used to a minor but growing extent, mainly to quote a price and establish contact with insurers.

Industrial and Commercial

Summary and Trends

In 2012 commercial and industrial property insurance accounted for about 10% of the non-life total.

Industrial and commercial property insurance figures understate the market to some extent, however, as some risks are placed abroad on a direct basis without any fronting company or broker involved, another 10% to 15% of industrial/commercial property premium, according to some estimates.

Premium income for 2011 compared to 2010 showed a reduction, but since 2012 there has been an improvement, as the economy has improved.

While the industrial/commercial market is more developed than the householders' market, there remains scope for further expansion, particularly among small and medium-sized enterprises. Awareness of insurance is now said to be very high, and insurers no longer need to educate clients about the need for cover. At the same time the range of perils bought as standard has widened but the benefits of liability insurance are less well recognised.

The need for business interruption (BI) is not always fully appreciated. A large loss which occurred in 2009 illustrates this; the fire at the Mustika Keskus shopping centre near Tallinn cost around EUR 8mn (USD 10.62mn) and is the largest to affect the local insurance market. There was no BI insurance in place for the actual shopping centre, despite being a broker placement. Some of the shops affected did have cover.

One factor which has prompted the purchase of much insurance for commercial risks is a bank or other lender's requirement to cover loan collateral. While property insurance is increasingly bought on its own merits, there remains an element of obligation from banks, investors or foreign shareholders behind insurance purchases.

One feature of the market which influences the size of premium income is the relatively low sums insured reflecting the values at risk: before 2008 these had been increasing quite quickly, with rebuilding costs exceeding inflation, but the economic downturn has affected this.

A substantial proportion of state assets (for example utilities) has been privatised. These risks are often fronted locally and reinsured abroad, or otherwise placed directly in the international market. The same is true for many multinational commercial risks for which a global insurance programme is in place. The local market therefore largely consists of the smaller and medium-sized risks, with the largest exposures insured abroad.

Coinsurance exists for only a small number of accounts. With most companies able to access the treaty capacity of parent insurers, Estonian risks can be written 100%. Facultative reinsurance nonetheless may be necessary in certain cases.

Competition for industrial/commercial property business has been strong and continues to be so in 2014. One reason for this is that loss experience has been good and there have been no sizeable losses borne by the local market. A large part of the Mustika Keskus loss mentioned above was fronted by a local insurer with the risk being borne in the Finnish market, but shops in the centre were covered locally.

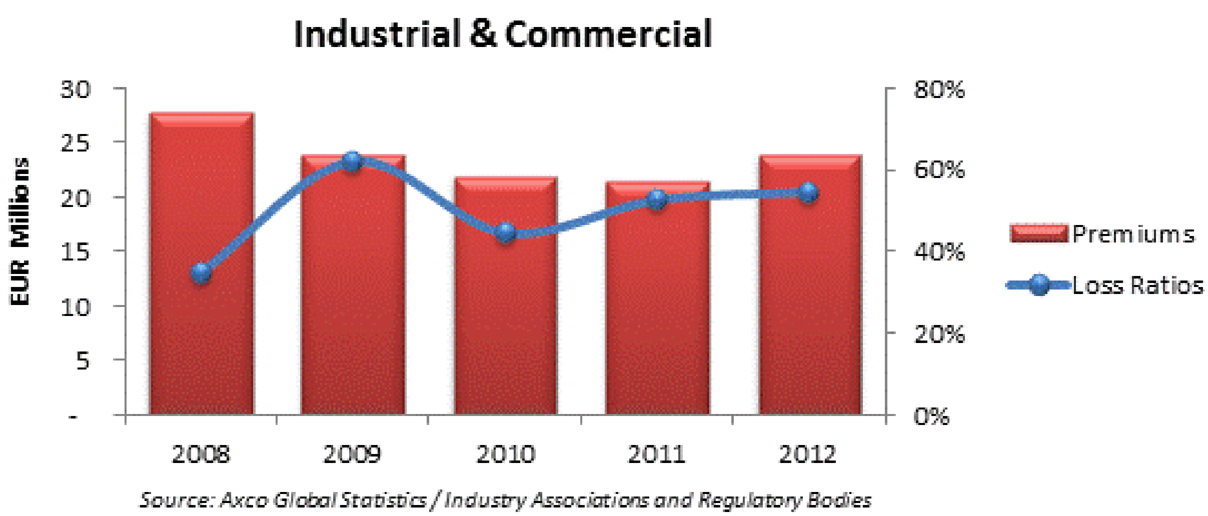
Over most of the last decade annual rate reductions of up to 10% or more have been seen for the larger risks with good claims experience. Competition from some new market participants has exacerbated the situation with existing insurers defending their market share. In 2014, however, it was reported that some stability returned to the market during the course of 2013.

Despite the competition, insurers have been able to maintain satisfactory terms and conditions and meaningful deductibles, and have not been forced to weaken these in order to win or keep business. Where clients wish to save money, insurers will increase deductibles or offer narrower coverage commensurate with a lower rate, named perils instead of all risks, for example.

Forests are generally not insured but ERGO and If Eesti do offer some cover. The state owns around half the forests and commercial owners account for the remainder. Several of the major commercial owners purchase insurance, sometimes just for fire and sometimes for both fire and windstorm.

Statistics

Gross written premiums and loss ratios for the last available five years are shown below.



Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.

New statistical information may have been included in the appendices.

These figures are understood to include CAR/engineering business.

Industrial and commercial property insurance figures understate the market to some extent, however, as some risks are placed abroad on a direct basis without any fronting company or broker involved, another 10% to 15% of industrial/commercial property premium, according to some estimates.

For example the insurances of Eesti Energia (one of the largest risks in Estonia) are placed in the Finnish and London markets; the premium for this risk (all classes) is said to be around USD 4.50mn but does not feature in Estonian statistics.

Limits and Scope of Cover

Basic coverage is FLEXA: fire, lightning, explosion (for example of boilers) and aircraft damage. Some companies do not restrict explosion to pressure vessels; explosion can be any explosion event.

The cost of fire extinguishing operations, demolition and debris removal is limited to 10% of the sum insured.

In addition to statutory safety regulations, the insured is obliged to follow the general safety instructions contained in the policy. These instructions cover housekeeping, smoking, maintenance, storage, fire extinguishing and inspections.

If a claim results from a breach of these instructions, the claim will be paid, but at a 20% reduction subject to a minimum monetary figure.

Basic cover can be extended to include:

- water damage (including sprinkler leak, leaks from water, sewerage and heating systems)
- burglary (including robbery)
- windstorm (including hail, falling trees and rain damage); storm is defined as wind speed in excess of 15m per second - antennae or advertising signs can be covered by agreement
- glass (cover is given against fire, lightning, natural disaster)
- traffic accident
- malicious damage (subject to a sub-limit of EUR 6,500 (USD 8,784), formerly EEK 100,000.

Flood, including storm flood, is given as a separate cover and subject to individual underwriting. Cover offered by one company is subject to a basic sub-limit of EUR 65,000 (USD 87,840) with sums of up to EUR 2mn (USD 2.7mn) possible.

All risks cover is available and is demanded by the largest insurance buyers. These risks tend to be covered by global programmes in which the master wording gives cover on an all risks basis.

Package policies for small and medium-sized enterprises are available. In some such packages, liability cover is given under a separate policy, but other, more recently introduced packages include it automatically along with business interruption, on an all risks basis.

Standard exclusions are:

- war, civil war, social unrest, coup d'etat, strike, state of emergency, terrorism or expropriation
- use of nuclear power for any purpose or loss of control over it
- radiation and radioactive contamination
- blasting or mining operations
- earthquake.

Use of book value as the basis of indemnity has declined. Book value is never used where an international broker is involved but it is used by insurance company agents who are trying to present the client with the cheapest premium possible. Reinstatement or replacement value may also be used.

In 2008 case, *No 3-2-1-113-08*, the Supreme Court ruled that insurers must reimburse reinstatement costs, even if the insured declares that it has no intention of rebuilding.

Business Interruption

Business interruption (BI) cover is available and follows international standards. Cover is regularly requested but penetration is much lower than that of property insurance and the need for BI is not always fully recognised. Larger clients always buy this type of insurance but small and medium-sized clients do not fully appreciate the need for BI and it remains difficult to sell; one estimate suggests 30% of major property insureds have BI cover.

Contingent BI is not a feature of the market but can be obtained; cover is usually for own premises only. The typical waiting period is three days and typical indemnity period is 12 months.

Rating and Deductibles

Over the last decade, rate reductions have generally been on-going, with the greatest seen on industrial risks. The smallest commercial risks are almost unchanged.

The following are some indicative rating examples:

Type of risk	Typical rate (‰)
Sawmills, furniture	1.5 to 5.0 +
Offices	0.2
Hotels	0.3 to 0.7
Textile production	1.0 +
Shopping centres	0.2 to 0.3

Source: Market sources

The following is an indication of overall rate movements in recent years (base 100 in 2006):

Industrial and commercial risk rate movements	
2013	45
2012	45
2011	50
2010	55
2009	65

Source: Market sources

Sawmills have suffered several losses and as a result local capacity is expensive.

Deductibles vary but the main insurers insist on a minimum of EUR 650 (USD 878) for small risks. Medium-sized risks may have up to EUR 10,000 (USD 13,500), while the largest risks have higher amounts, EUR 50,000 (USD 67,600) or EUR 100,000 (USD 135,000).

For oil and petrochemical industries, deductibles are USD 10,000.

Major Risks

Coinsurance is not a feature of the market and large and complex risks are either placed abroad on a direct basis under freedom of services (FOS) or fronted locally.

The areas of major risk concentration are the leading urban centres of Tallinn and Tartu, the ports of Tallinn and Muuga and the industrial areas of the north-east around Narva and Kohtla-Jarve.

The main risks in Estonia are detailed below.

- Eesti Energia (power company) is by far the largest risk, and is divided into mining (not insured), renewable energy and generation/distribution. The generating/distribution risk is placed on a FOS basis in the Finnish and London markets by international brokers, with no local fronting company. Other energy risks in Estonia include Fortum.
- Other state-owned or privatised risks include Tallinn airport, Tallinn harbour (Tallinna Sadam), Eesti Gaas, Eesti Telekom, Eesti Raudtee (railways) and Tallinna Vesi (a water company). Compared to other plant and installations, sums are said to be relatively low.
- Arcelor Mittal owns a galvanising factory which is reportedly insured in the London market on a FOS basis.
- Nitrofert is an ammonia-producing petrochemicals plant near Kohtla-Jarve which is owned by Group DF.
- Zellulose is a pulp/paper risk near Kunda.
- NG Investments is a conglomerate whose interests include distilling, motor and retail activities.
- Stora Enso is the Finnish pulp/paper giant which owns sawmills in Estonia which are insured with its captive.
- Vopak EOS is the largest independent oil terminal operator in the Baltic States.

- The largest risk in the region is Baltic Ship Repairers (BLRT Group) but there are various exposures in Estonia.

Loss Experience and Largest Losses

Individual commercial property losses have been low but the frequency of fires costing up to EUR 1mn (USD 1.35mn) has been increasing. Occasionally larger losses have occurred, but these are often insured directly abroad or reinsured by a local fronting company and as such their impact on the local market can be minimal. As a rule, fires tend to occur in the bigger, older buildings which have poor fire protection.

The fire which broke out in March 2009 at the Mustika Keskus shopping centre near Tallinn, cost around EUR 8mn (USD 10.62mn) and is the largest to affect the local insurance market. There was no BI insurance in place for the actual shopping centre, despite being a broker placement. Some of the shops affected did have cover. The supermarket building was fronted locally on behalf of a Finnish company but the centre and damaged shops were largely covered by the Estonian market.

Some other major losses (around USD 10mn) have been reported, but as these relate to risks insured on a FOS basis in international markets, only rough details are available locally.

Major Insurers

The major insurers of commercial property business are understood to be If Eesti, ERGO, Codan (RSA), Seesam, Salva and Gjensidige Baltic.

Reinsurance

Per risk excess of loss treaties are placed. Capacity varies but one leading company has EUR 20mn (USD 27mn). Companies may also access parents' reinsurance programmes, thereby gaining substantial automatic capacity.

Treaties ordinarily cover CAR/EAR separately, but some are combined.

Distribution

Brokers are an important distribution channel for industrial/commercial business and one estimate credits them with over 50% of the market for the larger risks. Brokers are instrumental in placing risks abroad on a direct basis; they also place insurance for large risks in the local market and then place the reinsurance abroad. The main brokers involved in this area are Aon, Marsh and Vandeni (Willis correspondent).

The larger insurers have specialist departments to deal with the more important insurance buyers on a direct basis. Multinational business is often placed directly with Estonian insurers.

Agriculture

Summary and Trends

Forests are by and large uninsured but ERGO and If Eesti do offer some cover. In Estonia there are 55,000 private forest owners with an average holding of 12 hectares; of these, probably no more than 150 actually buy cover. The state owns around half the forests and commercial owners account for the remainder. Several of the major commercial owners purchase insurance, sometimes just for fire and sometimes for both fire and windstorm.

Otherwise agriculture is regarded as a difficult sector and no insurers will offer cover, despite the government subsidising crop insurance by up to 80%.

Glass

Glass insurance is available.

Construction and Machinery Breakdown

Construction and Erection all Risks

Summary and Trends

According to estimates CAR/EAR business in Estonia was worth around EUR 1.5mn (USD 2.02mn) to local insurers in 2013, a similar figure to 2012. With some EU projects reportedly delayed until 2015, some observers predict income to drop by up to 30% in 2014.

These figures may understate the market to an unknown extent as insurance for the larger projects is placed outside the country.

The collapse of the roof of the Maxima supermarket in Riga which occurred in November 2013, killing 54 people has been attributed to faults in design, but has not reportedly had too much impact on the insurance buying patterns of construction professionals in Estonia: supervision of construction in Estonia is regarded locally as technically superior to that in Latvia.

It is understood though that while construction companies are less concerned with reviewing the amount of insurance cover they buy, designers/architects and engineers are having problems with their professional indemnity cover. Such problems are not solely connected to the Riga catastrophe but are related to the very high loss ratios such business produces. These professions are seeing premiums triple in some cases.

In the second quarter of 2013 (latest available information) construction output grew by 4% in Estonia. Project value totalled EUR 557mn (USD 730mn), split roughly two-thirds construction and one-third civil engineering. Although there is much new construction, growth was due mainly to repair and reconstruction work.

Prior to the recession the Estonian construction industry had been strong; worth over USD 1bn in 2007 and with a forecast growth rate of more than 7% until 2010. This strength had been based on large-scale retail development, an expanding house-building sector and large government infrastructure projects, but the contraction in lending altered the market completely.

The two main factors behind commercial construction had been the availability of long-term credit for private and commercial property developments, and a rising demand for office space in Tallinn and Tartu. Investments in supermarkets and financial centres had also helped the building industry.

Some 70% of new housing construction is situated in the three cities of Tallinn, Tartu and Parnu.

There are over 3,000 construction companies in Estonia: of these, some 500 are large operations, the largest of which has a 15% market share.

Statistics

According to estimates CAR/EAR business in Estonia was worth around EUR 1.5mn (USD 2.02mn) to local insurers in 2013, a similar figure to 2012. With some EU projects reportedly delayed until 2015, some observers predict income to drop by up to 30% in 2014.

These figures may understate the market to an unknown extent as insurance for the larger projects is placed outside the country.

Loss experience is reportedly satisfactory but some claims relating to port construction have been reported.

Hazard

There are no abnormal hazards associated with construction insurance in Estonia. Windstorm is the main natural peril; flood is normally not covered automatically by insurers. Estonian soil is predominantly clay; there are no sinkholes or unknown mineshafts.

Building Contract Conditions

The *Building Act* governs construction contracts between contractors and principals but does not mention insurance. The contractor is responsible for obtaining third party and contract works insurance for each project but there is no legal provision regarding who actually finances the cover.

The maximum maintenance period is usually set at 24 months but more and more projects now require 36 or 60 (civil engineering). There is not much demand for advanced loss of profits/delayed start-up and not all companies offer this cover.

For larger projects, internationally funded, the FIDIC wording is a standard requirement.

The normal professional indemnity limit for construction-related professions varies, but EUR 64,000 (USD 86,500) is common: higher limits such as EUR 320,000 (USD 432,000) or EUR 640,000 (USD 865,000) are also found. For some professions, the indemnity limit is the same as the contract value, not the potential exposure.

Polices tend to be on an annual basis, but project specific policies are seen. The use of London market clauses which extend coverage to include design faults is recommended by the major international brokers and these are applied by local insurers.

Limits and Scope of Cover

CAR/EAR is written as a separate class and while insurers' policy conditions vary from company to company, they generally reflect parent company forms. For example the Seesam wording reflects that of Pohjola (Finland), while ERGO uses a Munich Re wording and If Eesti uses a wording from Swiss Re which is itself similar to that of Munich Re. The basic coverage available across the market is therefore broadly similar.

Open covers are available on the same wording as those for individual projects but in practice this is only for the largest contractors, subject to an inclusion list, and for projects up to a certain value. Plant and machinery is covered separately as contractors' property.

Contractors' Liability

Only a limited amount of liability cover is normally included in the CAR/EAR policy; up to EUR 640,000 (USD 864,900) is seen but where foreign finance is involved, sums can be much higher, up to EUR 15mn (USD 20.27mn) or more.

Employers' liability is becoming more prevalent in the construction industry, particularly in cases where contractors are working outside Estonia. Cover is usually limited to accidents, but some cover for occupational diseases is now being given.

Third party liability for companies involved in operating, managing or building railways is obligatory under the *Railways Act*. Minimum limits are EUR 639,116 (USD 863,670) for undertakings engaged in railway civil engineering works.

Rating and Deductibles

Rates for individual projects vary according to the detail of the contract but are rising. Approximately 2‰ would be normal for an industrial risk and 5‰ for a wet risk.

Deductibles for open covers may start at EUR 1,000 (USD 1,350) and can go up to EUR 10,000 (USD 13,500) for normal accounts. Deductibles can be much higher for larger projects placed in international markets but EUR 100,000 (USD 135,000) is no longer exceptional.

Loss History

Excepting one 2007 claim (in which a new factory building collapsed) costing up to EUR 5mn (USD 6.7mn), no major claims (over EUR 2mn (USD 2.7mn)) have been reported.

Typical claims involve water damage, theft from the construction site or sometimes collapse of the works at an early stage; fire losses are not common. Loss amounts tend to be small but frequency is rising.

Liability losses are also increasing in frequency but the standard limit is said to be enough to cover them in most cases.

Major Insurers

The market is reportedly divided between companies like If Eesti, Seesam and Codan (RSA) locally with involvement from Zurich or AIG in Finland for the major risks.

Reinsurance

Some treaties cover CAR/EAR separately but some are combined with other property insurance. Facultative reinsurance is seldom required.

Distribution

Major projects tend to be insured in Estonia but some are covered outside on a freedom of services basis. Insurance for the larger projects may also be placed through a broker.

Construction and Machinery Breakdown

Building Cost Index

The following table shows the building cost index for the last available five years (2010 as the base year (100)).

	2008	2009	2010	2011	2012
Building cost index	155.90	109.43	100.00	127.33	151.00

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Principal Contractors

The principal contractors are Nordecon (formerly Eesti Ehitus) which is the largest company, Merko, YIT, KMG Ehitus and Skanska EMV.

Contractors from Finland and Sweden also operate in Estonia.

The Estonian Association of Construction Entrepreneurs has roughly 100 member companies which account for almost half the total construction market.

Machinery Breakdown

Summary and Trends

The main insurers in the market provide machinery breakdown cover to international standards. Demand had been low but increased as economic activity grew in the years leading up to the financial crisis, as businesses installed new production lines.

The main buyers of this cover used to be the larger, usually foreign-owned enterprises which are frequently part of a multinational: in such cases cover was included in the property all risks policy by removing the machinery breakdown exclusion from that policy. Today, more local, medium-sized enterprises, such as sawmills and textiles factories, are also buying the cover.

Statistics

Machinery breakdown is included in industrial/commercial property for statistical purposes. No separate data is available.

Limits and Scope of Cover

Cover is often given under a separate section of a property all risks policy but the form varies from company to company. If Eesti has its own wordings and the Munich Re form is used. Separate policies are also available.

Loss History

Loss experience has reportedly been good but in 2014 a large claim of over EUR 5mn (USD 6.75mn) has been reported.

Statutory Inspection Requirements

The *Occupation Health and Safety Act* aligns Estonia's legislation more closely with that of the EU. EU-inspired legislation on machinery safety is also in effect.

Cranes and lifting equipment must be inspected by the appropriate authorities at least once a year. Such equipment is required to have its own "technical passport" which includes information on age.

Extended Warranty

Extended warranty for white and brown goods has been under discussion since 1996 but there is little demand for this cover and only a small number of insurance contracts are in force.

Extended warranty arrangements for cars are placed outside the country.

Summary and Trends

Motor insurance is the dominant class in Estonia, accounting for just over 62% of non-life premium in 2012.

This figure is broken down as follows: traffic insurance (obligatory motor third party liability) made up 43%, corporate motor insurance (own damage insurance for company cars and other vehicle fleets) 31% and private motor insurance (own damage insurance for private individuals' vehicles) 26%.

While most cars in Estonia are in private hands, the majority of those insured for own damage cover (about 70%), are owned by companies of various types and sizes. Many of these cars are leased and insurance must be purchased as a condition of the leasing agreement.

Many individuals buy their cars on credit (this is also called leasing but is essentially a loan); in such cases insurance is a requirement: around 70% of new cars are reportedly bought this way. As interest rates have been low, more and more individuals have taken out car loans and stimulated demand from the insurance market.

Many owners cease buying own damage insurance once the vehicle has been paid for; others maintain the insurance on their vehicle, despite there no longer being a requirement to do so. In 2014 it was reported that less than 50% of owners continued with own damage cover after the vehicle had been paid for, but the figure was said to be growing slowly year by year.

Many new vehicles were leased during the period leading up to the recession so with the typical five year lease expiring in 2012 or 2013, many have been replacing their vehicles, perhaps 70% to 80% of the market, and insurers are seeing some consequent growth in premium.

The economic downturn had a major impact on the motor insurance market: new car sales in May 2009 totalled just 700, compared with 11,000 in May 2008. Since 2010 sales have recovered, with new private car registrations up in 2013 by 4%, with 19,500 new cars sold, mainly in the first half of the year.

While the car fleet has grown, it has aged further with the average age of a car reaching 14 years. Density is reportedly 483 cars per 1,000 inhabitants, above the EU average.

Competition in motor own damage insurance continues to be strong, keeping premiums under pressure. The scope of cover remains stable and competition is mainly focused on pricing. Some insurers now report that service is increasing in importance for the motor insurance buyer and one offers a three-year discount to ensure customer loyalty.

Motor

Motor third party liability (MTPL) insurance penetration is high; uninsured vehicles cause less than 1% of accidents. Estonia's police have online access to the insurance database and also check cars in traffic at random, to check whether insurance is in place. Fines for non-insurance are high.

Increasing claims costs pushed the MTPL account into loss a few years ago, to which insurers responded by raising premiums but in the years 2009 to 2013, competition has continued to push down premiums. Poor figures reported by insurers for MTPL in 2013 have led observers to suggest that the market should now stabilise and perhaps edge up.

Higher indemnity limits have come into force in 2012 following Estonia's transposition of the EU's *Fifth Motor Directive,* but as compensation is linked to salary levels, which are expected to grow very little, overall claims experience for bodily injury has deteriorated noticeably. The claims burden related to third party property damage has eased as repair costs have fallen.

Estonia joined the euro on 1 January 2011. In converting kroon into euros for consumer policies, insurers have tended to convert sums insured or deductibles precisely, without any rounding upwards, in order to avoid potential accusations of changing the amounts in their favour, but as policies renew, some sums are being rounded, but in 2014 this is still not seen universally.

Legislative Update

There have been no recent changes in legislation.

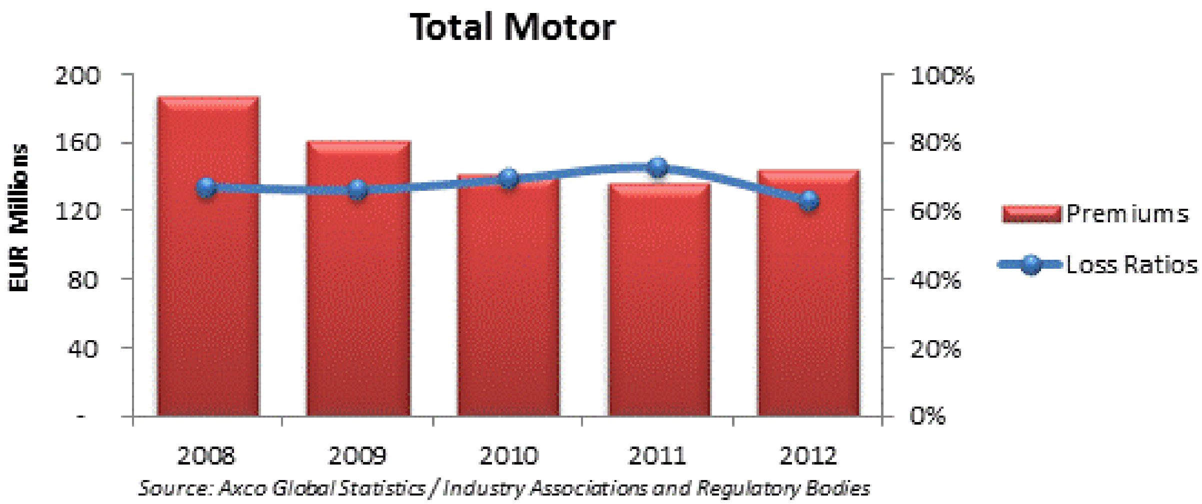
Projected Legislation

Plans to amend the *Motor Third Party Liability Insurance Act* have been under discussion since 2009 and although it was expected that the new law would come into force in 2011, in early 2014 it remained outstanding. It is understood though that is slowly progressing through parliament and could be finally approved in the first half of 2014. The new law will allow direct settlement of third party claims by the injured party's own insurer and change the application of pain and suffering compensation.

Statistics

Total Motor

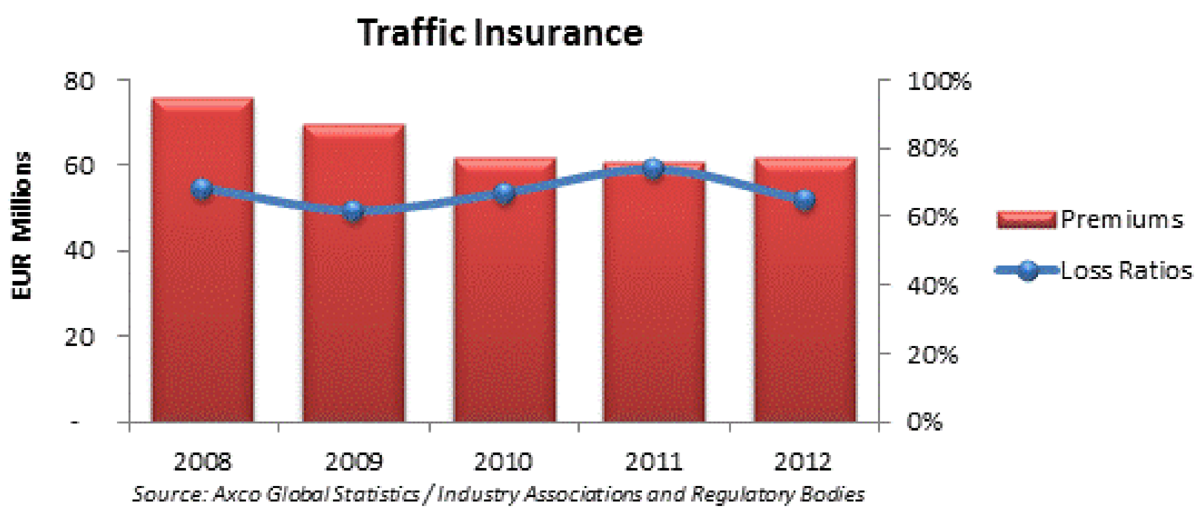
Gross written premiums and loss ratios for the last available five years are shown below for the total motor account.



Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.
New statistical information may have been included in the appendices.

Traffic Insurance (MTPL)

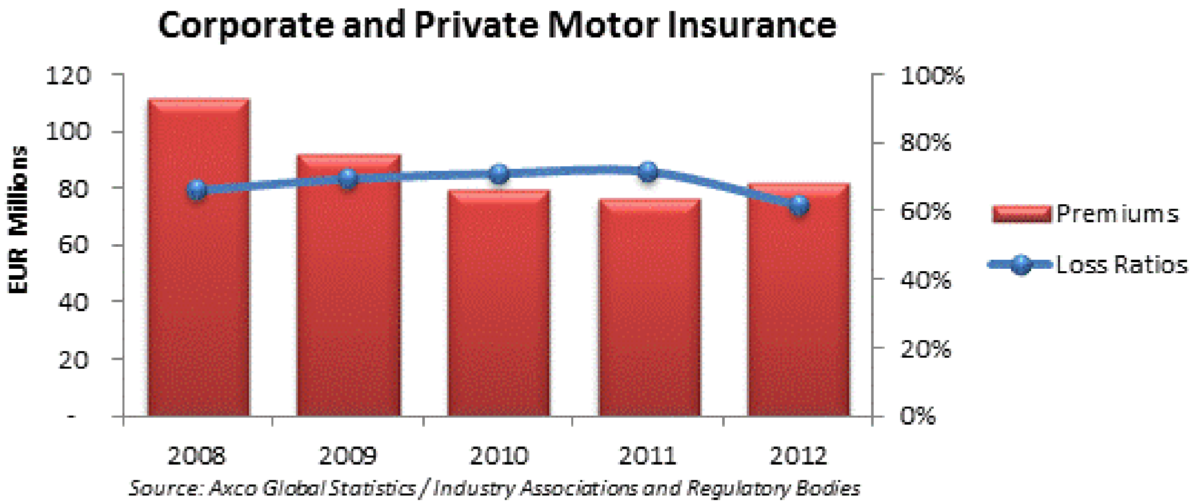
MTPL gross written premiums and loss ratios for the last available five years are shown below.



Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.
New statistical information may have been included in the appendices.

Corporate and Private Motor Insurance (own damage)

Own gross written premiums and loss ratios for the last available five years are shown below.



Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.
New statistical information may have been included in the appendices.

Statutory Third Party Limits

From 1 June 2012 MTPL limits have been raised to the amounts required by the *Fifth Motor Insurance Directive* but are the unindexed amounts: EUR 5mn (USD 6.75mn) in respect of bodily injury and EUR 1mn (USD 1.35mn) for property damage. All dependants of one person are considered as one claimant.

All vehicles with a maximum speed of over 15kph and an engine capacity of at least 25cc must be insured. Mopeds with capacities of 25cc to 50cc are subject to MTPL compulsory insurance.

Other Regulatory Considerations

All vehicles with a maximum speed of over 15kph and an engine capacity of 25cc must be insured. A valid insurance policy is a condition for registration, sale and roadworthiness inspections.

Compulsory MTPL insurance is required for mopeds. Mopeds are classed as small motorcycles with engines below 50cc and a maximum speed of 60 kph.

Except in the cases as set out in *Section 27* of the motor insurance act, compensation for injury or damage is based on the act and the insurance contract, and is established according to the degree of the insured's liability, regardless of the involvement of the injured party in the traffic accident.

Section 27 details the application of strict liability as noted below.

- Bodily injury caused to a pedestrian by a vehicle shall be compensated even if the owner of the vehicle is not liable for the injury or damage caused.
- Medical expenses for the driver who causes an injury or damage shall be compensated for regardless of the liability of the driver.

The provisions above do not apply if the pedestrian or the driver causes an injury and/or damage in connection with his or her suicide or if he or she is under the influence of alcohol, narcotic drugs or psychotropic substances at the time the injury and/or damage was caused. Any injury caused to a pedestrian shall be compensated even if he or she is under the influence of alcohol, narcotic drugs or psychotropic substances at the time of the accident but there was no causal relationship between the condition of the person and the accident.

Injury and/or damage specified in the act is in two parts i) bodily injury and ii) property damage as a result of a traffic accident.

The following are compensated as bodily injury:

- financial loss arising from temporary incapacity for work
- financial loss arising from permanent incapacity for work
- expenses relating to the medical treatment of the injured party
- in the event of a fatal traffic accident, the decrease or loss of the maintenance support of a dependant, and funeral expenses
- pain and suffering arising from the personal injury.

The following are property damage:

- damage arising from injury to or destruction of property
- reasonable and necessary expenses relating to legal assistance and expert assessments.

The operation of the MTPL system is the responsibility of the Estonian Traffic Insurance Fund (ETIF), a non-profit body operating under the authority of the Finance Ministry. ETIF acts as regulator, leading reinsurer, border insurer, guarantee fund for uninsured and untraceable drivers, and International Motor (Green Card) Bureau.

All MTPL policies are sold using the ETIF's online database; this contains the details of all registered vehicles in Estonia and means that individuals' claims details will be available to insurers. The database conducts a daily check against the vehicle registry and lists every discrepancy. If after 30 days there is no resolution (ie the owner has not registered the vehicle), it is followed up. This discrepancy check will not pick up any vehicle as long as it remains unregistered.

The insurance association asserts that its database is unique in the EU in that all parties (police, doctors, clients) have online access to the central statistical pool. They have closed down the user interface for insurance companies who were using it as a sales tool but a prospective purchaser may see the vehicle's claims history and who was at fault in each case. This database has legal status meaning that its content is taken as fact, in law.

Since 2007 the following amendments to the *Motor Third Party Liability Insurance Act* have taken place:

- an increase in indemnity limits and better protection of pedestrians, cyclists, roller skaters, and other similar road users
- the removal of the requirement for drivers to always carry a written policy; the MTPL insurance policy may also now be contained in an e-mail or other electronic form
- extended coverage to accidents taking place while driving on or off a passenger ferry in regular domestic service
- an insurer may now charge an additional insurance premium for a Green Card in respect of countries outside the EEA/Switzerland.

Vehicles owned by the armed forces, police and border guards must be insured unless a specific government exemption is issued, in which case these bodies remain liable under civil law. In such cases, claims are settled through ETIF which will then seek reimbursement through subrogation.

There is no bad risks pool. Insurers cannot decline to quote for a bad risk, however, they can raise their prices substantially.

Penetration is high in MTPL insurance; uninsured vehicles cause only about 1% of accidents.

Plans to allow direct settlement of third party claims by the injured party's own insurer await the introduction of amendments to the *Motor Third Party Liability Insurance Act*. It is estimated that 70% to 80% of such claims could be handled on a direct settlement basis. It is planned to establish a specific body to handle disputes between insurance companies.

It had been expected that amounts awarded for pain and suffering in motor claims would be increased and that, as claims development in general liability is related to that in MTPL, important changes would be seen. In 2014 it was reported that the new MTPL law would include a change in the scale relating to pain and suffering: the maximum level (out of five levels) of EUR 3,195 (USD 4,318) is planned to become a minimum amount but in order to be given a higher amount, a claimant would need to show that his or her pain or suffering is worth a higher sum than the minimum.

International Motor

Green Card coverage for EU countries is combined with domestic coverage purchases. A Green Card is still required for travel to non-EU countries and vehicles from non-Green Card countries must buy MTPL insurance at the border.

Limits and Scope of Cover

Basic cover offered includes fire (as a result of ignition, arson or explosion), and theft of or from the vehicle.

Standard cover extends the basic by adding vehicle own damage. Elite cover includes in addition, loss of keys, damage to personal belongings and emergency assistance (accommodation, transport and other costs related to an accident). Malicious damage, natural perils and glass may also be covered.

"Mini-casco" (fire and theft) contracts are available for older vehicles, ie seven to 12 years old. Some covers which were once considered "additional" are now standard, for example roadside recovery and replacement vehicles.

There is little variation between the products offered by local insurers but one innovation in the last few years is mechanical breakdown cover.

Typical exclusions would be:

- damage caused intentionally by the insured
- when no loss report is made to the police following theft
- when the doors and windows of the car are not locked or anti-theft devices were missing or not functioning
- driver not licensed, under the influence of narcotic substances or in state of intoxication
- damage incurred as a result of driving in a place not prescribed for traffic
- using the car in competitions, training or tests.

To make insurance more affordable for younger drivers, telematics have been discussed in Estonia but in 2014 have yet to be trialled: the cost/benefit analysis so far means that there is little interest.

Deductible insurance is available from insurance broker IIZI which can reduce a car owner's overall financial responsibility to nil.

"New value insurance" protects new passenger vehicles and minivans in cases where a car is written-off, or is stolen, and the vehicle's original sales price is compensated. New value insurance cover is valid only up to the first 40,000 kilometres of driving for any car, but for a period not exceeding one year.

Rating and Deductibles

Estonia joined the euro on 1 January 2011. In converting kroon into euros for consumer policies, insurers have tended to convert sums insured or deductibles precisely, without any rounding upwards, in order to avoid potential accusations of changing the amounts in their favour, but as policies renew, some sums are being rounded, but in 2014 this is still not seen universally.

MTPL rates are set to reflect:

- main area of vehicle use (urban or rural); the country is divided into five regions for this purpose and urban use attracts a high rating factor
- type of vehicle eg car, truck, van, motorcycle
- engine size
- previous claims.

Gender is not an underwriting factor for motor insurance.

For some insurers age is not such an important factor and premiums vary only a little between younger and older drivers. Telematics have been discussed in Estonia but in 2014 have yet to be trialled: the cost/benefit analysis so far means that there is little interest. Insurers report that there is a clear spike in claims when drivers reach their mid-40s, reflecting the fact that their teenage children are now starting to drive.

The following table gives an indication of rate movements for motor premiums in recent years, (base 100 in 2006).

Motor rate movements	
2013	75
2012	80
2011	85
2010	95
2009	100

Source: Market sources

Average premium in 2014 for motor own damage was around EUR 400 (USD 540), about EUR 105 (USD 142) for MTPL.

Rates for own damage (casco) are calculated by some insurers as a percentage of the vehicle's value, taking into account the vehicle type, age and cover (casco or supercasco). Other insurers price each model individually with a factor for age and accessories.

The number of premium instalments chosen by the insured also affects the size of the premium. "Whole client" discounts are available and are given when a customer has a number of different policies (motor, PA, householders, travel) with one insurer.

Deductibles can be chosen, subject to a typical figure of EUR 200 (USD 270); deductibles for more expensive cars start at EUR 300 (USD 405). Higher deductibles are imposed on young drivers (under 25); if an accident is caused by a young driver not declared on the proposal, the deductible is doubled. Theft deductibles can be 10% or 15%.

If Eesti has a bonus programme whereby claims free years are given a monetary value which reduces the deductible imposed on the customer in the event of an insurance claim.

Deductible insurance is available from insurance broker IIZI which can reduce a car owner's overall financial responsibility to nil.

No Claims Discount System

There is no common bonus malus system applicable to MTPL insurance and while each company now has its own variant, observers suggest that there are few differences between them in reality. Compulsory use of the ETIF database means that the transfer of information is reliable.

The maximum bonus tends to be achieved with five years claims-free driving so given that claims frequency is about one in 20 years, the maximum level can be reached by most drivers relatively easily.

There is no standard for own damage cover: each company has its own system, which may just include a simple recalculation of the premium based on the increasing age of the vehicle.

Loss Experience and Trends in Court Awards

The main causes of loss in Estonia are collisions. Claims incidence has been fairly stable, but frequency rose during the hard winter conditions of 2010 and 2011.

About 10% to 20% of MTPL claims relate to road traffic accidents occurring outside Estonia, with 25% to 30% occurring in Finland; Germany accounts for 10% to 15%. Many of these claims relate to international road haulage.

Some MTPL claims information published by the Estonian Traffic Insurance Fund for the first three quarters of 2012 and 2013 suggests that the percentage of the total claims amount paid relating to bodily injury declined by over 50% to about EUR 1.5mn (USD 2.03mn), or about 5% of the claims burden. About 17% of the claims burden was incurred outside Estonia. Average claims were down 6%, at EUR 1,431 (USD 1,932).

The largest MTPL claim since 2005 according to ETIF was the equivalent of EUR 1.82mn (USD 2.46 mn at current rates) and occurred in Finland that year. Claims occurring abroad are unsurprisingly more costly than in Estonia.

Estonian roads have become progressively safer over the years but deterioration in 2002, resulting from increased traffic density and an upsurge in drunken driving, led to new campaigns on road safety.

The table below shows road accident statistics for the last available five years.

	2008	2009	2010	2011	2012
Number of accidents	34,973	25,726	32,265	29,679	28,791
Number of fatalities	132	100	79	101	87
Number of severely injured	2,398	1,931	1,720	1,877	1,706

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

From 1 June 2012 MTPL limits have been raised to EUR 5mn (USD 6.75mn) in respect of bodily injury. In recent years most claims in Estonia have been far below this level. Several bodily injury claims have been close to past indemnity limits but the largest is understood to be around EUR 500,000 (USD 675,000) in Estonia.

The increased indemnity limits might be expected to increase claims amounts accordingly, but, given the link between compensation and salaries (which will remain for the most part quite modest), claims amounts should not suddenly escalate. In 2014 it was reported that the new MTPL law would include a change in the scale relating to pain and suffering: the maximum level (out of five levels) of EUR 3,195 (USD 4,318) is planned to become a minimum amount but in order to be given a higher amount, a claimant would need to show that his or her pain or suffering is worth a higher sum than the minimum.

There are no "knock-for-knock" (direct settlement) arrangements and it is up to the individual injured party to claim against the third party's insurer: proposed changes to legislation, however, should change this.

Whiplash is not an issue for Estonian insurers.

Compensation for serious bodily injury is paid as an annuity and insurers have developed expertise in building reserves to make annuity payments.

There is no set practice for claims reserving. As regards reserves for disability annuities relating to motor third party liability insurance, reserves are discounted but there is no uniform practice across the Estonian market so the insurance association is trying to establish a standard approach and improve transparency as to how each company sets claims reserves.

Some insurers reportedly only reserve for permanent disability claims on the basis of three years loss of income, re-establishing the reserve every three years, instead of for the expected lifetime of the disabled person, thereby keeping the amount of the reserve at an artificially low level.

Compensation for medical expenses is payable and the costs of treatment incurred by state hospitals are recoverable from insurers. Medical inflation is said to be increasing more quickly than price inflation and is contributing to the rise in claims burden along with salary rises.

Theft losses (of and from the vehicle) used to account for between 15% and 20% of the loss burden but had been declining in recent years: with the growing use of anti-theft devices, older vehicles became much more likely to be the subject of theft. In 2009 there was an increase in thefts, particularly of high value vehicles (such as Bentley, Porsche and Mercedes); these were attributable to a single criminal gang, however, and frequency fell considerably when the gang was caught.

In 2011 there was an initial increase in thefts from vehicles, but since then insurers have not reported any particular problem with thefts of vehicles. Some fraud-related theft was suspected as insureds staged thefts in order to end unaffordable lease arrangements.

Insurers report that there is a clear spike in claims when drivers reach their mid-40s, reflecting the fact that their teenage children are now starting to drive.

Repair costs had been rising faster than the rate of inflation but some reductions have been seen in the economic downturn. Repair costs are particularly high for vehicles requiring spares from abroad.

Workshop costs for official dealers can be expensive (at around EUR 50 (USD 68) per hour) but it is a warranty condition that only main dealers may service or repair vehicles for three years following purchase. The costs of the more numerous independent garages are much lower, at around half the level. To preserve warranties, independent garages are restricted to minimal activity such as tyre-changing and very minor maintenance.

Major Insurers

The leading motor third party insurers and their market shares are shown below.

Company	Market share 2012 (%)
If Eesti	27.30
ERGO	21.82
Salva	9.30
Inges	9.07
Codan	8.11
Seesam	6.65
Swedbank Vara	6.56
BTA	6.55
Gjensidige Baltic	3.97
QBE	0.51

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The leading motor hull insurers and their market shares are shown below.

Company	Market share 2012 (%)
If Eesti	22.57
Swedbank Vara	20.59
ERGO	15.75
Codan	14.98
Seesam	11.76

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Reinsurance

Motor third party liability cover is placed as follows: unlimited excess of an indicative EUR 250,000 (USD 337,800) for Green Card risks with EUR 2mn (USD 2.70mn) excess of EUR 250,000 for domestic coverage. Some facultative reinsurance is used for high value risks and for those excluded from treaty arrangements.

Distribution

Insurers have used a variety of sales outlets for MTPL in addition to brokers and agency networks. Such outlets include petrol stations, lottery sales points, post offices and banks. MTPL is the most popular product sold through the internet and the amount of business actually transacted in this way has been steadily increasing: around 10% to 15% of non-life premium was said to be placed through the internet, of which most (90%) related to MTPL.

One broker (IIZI) has computer terminals in Estonian petrol stations and car registration offices, in order to provide clients with access to the company's website. IIZI is the main aggregator/broker with no other site coming close.

Salva sells MTPL direct at internet kiosks at shopping centres, harbours and airports.

In previous years concerns over fraud had made it difficult to sell motor own damage policies online. In 2014, while there is thought to be less moral hazard in Estonia, insurers still need to see the vehicle before cover is given: one insurer requests dated photographs from the proposer while others require the vehicle to be submitted for personal inspection.

If Eesti operates the poliis.ee website, a low cost operator brand offering MTPL and motor own damage insurance only.

Brokers are an important sales channel for own damage insurance: whilst larger enterprises may use brokers for their insurance needs, in recent years the leasing and finance houses in Estonia have set up their own in-house intermediaries to sell to clients both private and corporate. In mid-2013 almost 50% of motor own damage and about 65% of motor third party liability premium was placed by brokers.

Banks are also important: Swedbank for example owns a leasing/finance company (Swedbank Liising) which enjoys a substantial market share of over 50% (of the Estonian leasing market); this company channels business to the bank's own in-house insurer, Swedbank Vara, which now enjoys a market share of 14% in 2013. The other major bank, SEB, has now concluded an agency agreement with insurer RSA. Nordea works with the If group around the region and with If Eesti in Estonia.

A number of car dealerships offer white label, brandassurance products for various car manufacturers/marques from a few insurers, principally If Eesti.

Vehicle Statistics

The table below shows the number of vehicles (000's) by type and growth for the last available five years.

Type of vehicle	2008	2009	2010	2011	2012
Cars	551.80	545.70	552.70	574.00	602.10
Growth (%)	5.35	(1.11)	1.28	3.85	4.90
Buses	4.30	4.10	4.20	4.20	4.30
Growth (%)	0.00	(4.65)	2.44	0.00	2.38
Trucks	83.30	81.10	81.20	84.30	88.00
Growth (%)	3.87	(2.64)	0.12	3.82	4.39
Motorcycles	17.60	18.60	19.70	21.10	22.80
Growth (%)	116.22	5.68	5.91	7.11	8.06
Mopeds	n/a	n/a	n/a	2.10	12.40
Growth (%)	n/a	n/a	n/a	n/a	490.48
Trailers	60.10	62.00	65.50	69.90	75.20
Growth (%)	12.76	3.16	5.65	6.72	7.58
Total	717.10	711.50	723.30	755.60	804.80
Growth (%)	7.07	(0.78)	1.66	4.47	6.51

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Motor Fleets and Commercial Vehicles

In a country in which individuals' income levels remain fairly modest by international standards, ownership of a modern vehicle has been limited to the more prosperous individuals and corporations.

Corporations make up the largest part of the market for new and higher value second-hand vehicles and insurance for motor fleets is therefore an important feature of the Estonian market. Fleets are often leased and insurance is usually placed by associated intermediaries or insurers. MTPL and own damage cover is essentially the same as for private cars but deductibles may be higher in order to get a lower rate.

Rating for large fleets, of 200 vehicles for example, is based on the type of vehicle with a common rate for each type. Smaller fleets, of five vehicles for example, are rated on each vehicle separately and group discounts are then applied. Some fleets are subject to excess of loss arrangements where the insurer agrees to cover claims over an agreed accumulated damage limit.

Corporate buyers have been seeking to cut costs wherever possible and insurance of their motor fleets has presented an obvious area for many companies: some have decided to retain the own damage risk themselves.

As with other motor, price is the main driver of competition. Fleet risk management has been under discussion in the market but given the cost implications, little action has been taken.

There are no specialist fleet insurance companies but ERGO and If Eesti reportedly offer excess of loss contracts.

Summary and Trends

Workers' compensation is part of Estonia's social security system. Employers' liability (EL) is a fairly small account, about 1,800 policies in 2013 generating less than EUR 500,000 (USD 680,000) in premium.

A law on compulsory workers' compensation insurance was expected to come into force as early as 1 January 2003 but introduction has been continually postponed in view of political difficulties. In early 2014 some observers declared that there was increasing pressure for this insurance to be introduced and that it was merely a matter of time.

The subject is politically sensitive, partly because of exposure to the country's previous history of industrial diseases, for which neither the government nor employers are willing to accept liability. At the same time, employers see this as another cost burden while trade unions do not want to see the involvement of the private insurance sector. No material progress is expected before the next general election in 2015.

Despite the existence of state workers' compensation, employers still have some legal liability for work-related accidents and slowly growing numbers of them cover this through insurance and according to one leading broker around half of the larger employers have EL insurance. Other factors driving the EL market include cases in which EL cover is required as a contractual obligation, and the fact that hospitals can seek recourse against insurers for the medical costs of treating work-related accidents.

While a few companies offer stand-alone contracts, others only extend general third party liability policies. Many employers have preferred to protect themselves by buying group PA cover and in a few cases group life insurance, but this solution has fallen out of favour, not least because of the penal tax treatment imposed upon such arrangements.

Demand is said to be increasing slowly and there is a growing market segment in construction companies working outside Estonia.

Statistics

Employers' liability (EL) is a fairly small account, about 1,800 policies in 2013 generating less than EUR 500,000 (USD 680,000) in premium.

Regulatory Considerations

There are no compulsory workers' compensation/employers' liability insurances.

Under the *Civil Code*, employers have a primary responsibility to their employees if they are killed or disabled in the course of their employment. Employers are obliged to pay compensation (excess of state benefits), but only if negligence can be proven against them: in practice, employers rarely avoid liability on this basis. The Central Sick Fund may also seek to recoup medical costs from employers in the event of a work accident.

If a company is no longer able to meet its commitments, for example in the case of bankruptcy, the state will offer sole compensation.

As regards benefits provided by the social security system, these are payable in the event of an injury as a result of an occupational accident or disease.

The temporary disablement benefit is equal to 100% of the employee's average earnings and is payable for up to 182 days (after a waiting period of one day). As regards permanent disability, this is the same is as for non-occupational incapacity for work.

Social tax paid by employers is equal to 33% of total pensionable salaries in 2014.

Legislative Update

There have been no recent changes in legislation affecting workers' compensation and employers' liability.

Projected Legislation

A law on compulsory workers' compensation insurance was expected to come into force as early as 1 January 2003 but introduction has been continually postponed in view of political difficulties. In early 2014 some observers declared that there was increasing pressure for this insurance to be introduced and that it was merely a matter of time. No material progress is expected before the next general election in 2015.

Expatriates

Any expatriate who is resident in Estonia and employed by an Estonian company would be covered in the event of work injury or similar.

Estonians working abroad would be covered but only for a limited period.

Limits of Indemnity

Where EL cover is offered, limits vary but EUR 100,000 (USD 135,000) or EUR 200,000 (USD 270,000) are typically seen for cover in Estonia. A deductible of a typical level of EUR 640 (USD 864) may be seen. Higher limits, of up to EUR 1mn (USD 1.35mn), are seen for work abroad, but in several cases in Estonia too.

Scope of Cover

If Eesti, ERGO, Codan (RSA) and Seesam offer stand-alone EL contracts: other companies will extend a general third party (GTP) liability cover. For multinational risks where a global liability insurance programme is in place, any EL cover would be placed under a local policy.

Cover provided by most companies is on a losses occurring basis and is usually for accidental injuries only. Where cover for occupational diseases is given, this too is on losses occurring basis with a sunset clause of three years (or more by agreement). Liability arises only where there is a statutory obligation to provide compensation.

Injuries due to asbestos dust, pharmaceuticals, electro-magnetic fields and chemical or biological substances used for non-war-like purposes are excluded.

Group PA policies are sometimes used instead of workers' compensation policies. Despite the fact that any insurance bought for the benefit of employees attracts income and social insurance taxes at a combined rate of over 70%, group PA policies are still purchased because group PA is considered to provide the best protection; it is not based on negligence and therefore gives "no fault" cover. It is reported that, to overcome this position, the employer may be designated the beneficiary but as no person's life can be insured without their permission, this involves getting the approval of all employees and can be administratively cumbersome.

Rating

EL rating is usually based on a company's wage roll and although it tries to reflect the degree of hazard involved in its activities as well as the indemnity limits required, there is little claims experience to assist in this endeavour.

As an example, premium for a construction company, of 25 employees, Estonia only, limit of indemnity EUR 50,000 (USD 67,500), deductible EUR 640 (USD 864), an indicative premium would be about EUR 275 (USD 371).

Loss Experience

Loss experience has been good. While a few major claims of up to EUR 1mn (USD 1.35mn) have been reported, many claims are ultimately not settled, as employers are often found not to be negligent.

The table below shows work accident statistics over the last available five years.

	2008	2009	2010	2011	2012
Number of work accidents	4,076	2,937	3,224	3,744	4,148
Number of fatalities	21	19	17	19	14

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

The main causes of serious accidents are machines and falls and failure to observe safety regulations is a factor in half of accidents. Hazardous substances such as asbestos are in use, but few cases of asbestosis have been reported.

It is said that in the Soviet era very few employees reported a work-related injury or illness for fear of punishment and this mentality persists to some extent. Furthermore, employees often do not take the time to register an injury with the authorities because the level of state compensation awarded is low, and they fear losing their jobs. The rate for occupational accidents is therefore far lower in Estonia than in western countries, and this seems attributable to serious under-reporting.

Claims settlements tend to be negotiated rather than litigated as the court system is slow and not necessarily trusted. For death claims, compensation is based on the number of dependants: for example where the victim leaves a spouse and child, the former receives an annuity based on two-thirds of salary for six years while the child's income would be paid until age 18.

Major Insurers

The main EL insurers offering stand-alone policies are If Eesti, ERGO, Codan (RSA) and Seesam. Other insurers extend GTP policies.

Reinsurance

EL may be retained where indemnity limits are modest but some reinsurance is also placed for policies with higher limits.

Distribution

Brokers are an important distribution channel for industrial and commercial business generally. The larger insurers have specialist departments to deal with the more important insurance buyers on a direct basis.

General Third Party

Summary and Trends

General third party (GTP) liability business is underdeveloped in Estonia: income in 2012 represented just under 2.5% of total non-life premiums. The number of policies is growing slowly, however.

Litigiousness in Estonia remains at relatively low levels compared with more developed markets. As time goes on, more and more people are becoming willing to seek redress through the court system, but the numbers involved are still low and claims in 2014 still tend not to be related to bodily injuries.

The streets of Tallinn exhibit a range of tripping and falling hazards which in other markets would give rise to claims for compensation for injury against the local municipality. One reason given for the lack of such claims in Estonia is that compensation largely relates to medical costs and loss of income; sums for pain and suffering are usually limited to motor third party liability claims and are relatively low.

Accidents such as ice falling from roofs and hitting passers-by during the cold weather which Estonia experienced in the winters of 2010 and 2011 were reported widely and this raised awareness of the possibility of claiming compensation. Some observers felt that public attention would soon wane but consciousness of such events has become firmly embedded.

The collapse of the roof of the Maxima supermarket in Riga which occurred in November 2013, killing 54 people, has not reportedly had much impact on the public liability insurance buying patterns of Estonian enterprises and the amounts of cover bought remain relatively modest.

Liability cover is bought by enterprises (general third party) and exporters to the EU (product liability) but one of the main types of business is said to be contractors' liability written separately from the main CAR/EAR policy.

Contractual obligation is becoming one of the most important factors behind growth in GTP; it is often a requirement for companies taking part in public sector tenders. A number of public liability insurances are a statutory requirement (for railway operators for example).

Given the lack of risks and claims experience in Estonia, there is little technical basis for rating and insurers can produce a wide range of rates for the same risk.

Legal liability in Estonia can arise from a number of sources, including the *Civil Code*, contracts and statutes such as the *Tort Act*. The *Commercial Code* is understood to establish the liability of company directors and officers for negligent acts but in other respects it is regarded as quite weak: few have taken legal action under its provisions.

The *Obligations Act* came into force on 1 July 2002; it sets out in detail the rights and responsibilities of individuals and companies, and establishes new rights of action.

DAS (a subsidiary of the German legal expenses company of the same name) was set up in 2006 and has now sold just under 10,000 policies across the region.

Legislative Update

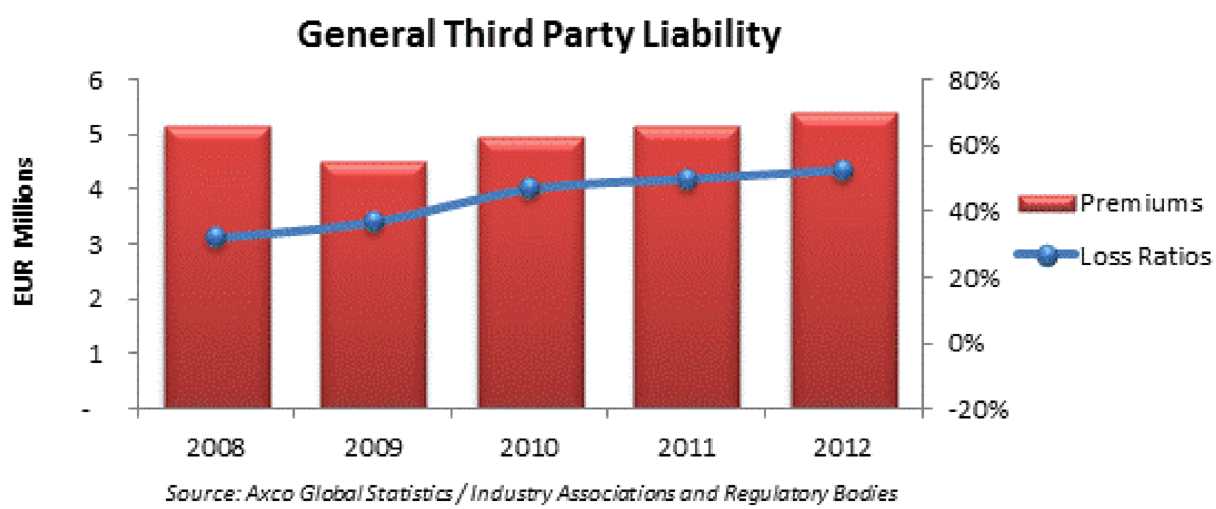
There have been no recent changes in legislation.

Projected Legislation

No projected legislation affecting general third party liability was known of when this report was in preparation.

Statistics

Gross written premiums and loss ratios for the last available five years for all liability (including GTP, product and professional) are shown below.



Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.
New statistical information may have been included in the appendices.

Limits and Scope of Cover

The normal wording covers both GTP and product liability.

It is understood that in the absence of any formal, legally defined trigger, insurers' policy wordings reflect their interpretation of the law but while either losses occurring or claims made cover used to be available, in 2014 it was reported that the local market now only offers losses occurring covers. Claims made policies are said only to be available from insurers operating in Estonia on a freedom of services basis.

As an example, one wording states that insured events are those occurring during the insurance period (or retroactive period) and claims must be advised within the insurance period (or extended reporting period). Another wording covers insured events occurring during the insurance period but allows for retroactive cover.

Indemnity limits vary but EUR 500,000 (USD 675,000) or EUR 1mn (USD 1.35mn) are typical but sometimes more. Annual aggregate limits of twice the event limit are imposed.

The law makes important distinctions between compulsory and voluntary insurances. Insurers are not able to decline cover for compulsory insurances but they can impose adverse terms to dissuade proposers. Injured third parties are allowed to present their claims directly to the insurer and the insurer is obliged to pay out, despite the fact the insured's actions would otherwise invalidate the policy; in such cases the insurer has the right of subrogation.

Insurers may also need to seek recourse against the insured for any deductible, so to reduce the risk that the insured is unable to pay it, deductibles for liability contracts tend to be on the low side. At the same time insurers may take into account any credit risk the insured may present.

As regards compulsory insurances, those bodies designated under the *Product Conformity Attestation Act* to act as accreditation authorities, which have the right to conduct assessment procedures necessary to attest the conformity of various products with legislation, are required to carry liability insurance. Liability insurance may also be required by related technical inspection bodies.

Specific items of legislation which mention such bodies include the *Building Act,* the *Maritime Safety Act,* the *Electrical Safety Act,* the *Explosive Substances Act,* the *Gaseous Fuel Safety Act,* the *Liquid Fuel Act,* the *Pressure Equipment Safety Act,* the *Lifts and Cableways Installations Act,* the *Metrology Act,* the *Medical Devices Act* and the *Mining Act.*

Minimum liability limits tend to be either EUR 31,995 (USD 43,236), formerly EEK 500,000 or EUR 63,910 (USD 86,365), formerly EEK 1mn. The relevant laws do not state whether insurance can be provided by insurers outside the EU/EEA.

According to *EU Directive 95/18/EC*, railway undertakings must be adequately insured or make equivalent arrangements for liability for passengers, goods and third parties. Member states may fix their own limits. Third party liability for companies involved in operating, managing or building railways is obligatory according to the *Railways Act*.

Minimum limits in 2014 were:

- EUR 1,917,349 (USD 2.59mn) for undertakings engaged in the operation of railways; this was previously set at EEK 10mn
- EUR 639,116 (USD 859,616) for i) undertakings engaged in railway civil engineering works; ii) undertakings engaged in the construction, repair or maintenance of railway vehicles used on public railways or in the provision of rail transport services (this was previously set at EEK 1mn)

- EUR 639,116 (USD 859,616) in respect of liability for bodily injury and property damage in respect of passengers.

Liability insurance for those involved in handling liquid fuel is obligatory under the *Liquid Fuel Act*. Companies involved in this activity should have share capital or liability insurance of at least EUR 31,955 (USD 43,182), formerly EEK 500,000.

Liability insurance for the above can only be offered by insurers permitted to operate in Estonia, which includes insurers operating on a branch or freedom of services basis within the EU/EEA.

Primary/excess covers are not a major feature of the market but sometimes primary local covers are set up with excess layers placed abroad in global programmes. Some compulsory covers may also be established on a layered basis, with the indemnity limit for primary at the level of the minimum statutory amount and based on the statutory requirement for direct claims payments, with excess layers on a non-statutory basis.

Policies are issued under Estonian jurisdiction, but the territorial scope of jurisdiction can be widened by agreement.

By market practice legal costs, which are included in the indemnity limit, are limited to a percentage (frequently 10%) within the overall limit, or are subject to a fixed amount in addition to the indemnity limit. Deductibles are not applied to legal costs.

Punitive damages are not specifically excluded but are not a feature of the Estonian legal system.

Rating and Deductibles

Rating may be based on company turnover and reflects the degree of hazard involved in its activities as well as the indemnity limits required. Alternatively, rates can be based on the size of premises (in sq metres) with factors reflecting deductibles and limits.

As an example, premium for a shop of 1,000 sq m, limit of indemnity EUR 60,000 (USD 81,000), deductible EUR 350 (USD 473), would be about EUR 150 (USD 203).

In 2014 it is reported that rates for the more hazardous occupations (railways, chemicals), where cover is on a statutory basis, are seeing some substantial increases.

Loss Experience

Claims experience has been good but while claims frequency is increasing, the individual amounts remain modest by any standards.

A major accident occurred in December 2010 when two trains (from different operating companies) collided near the northern Estonian town of Aegviidu: a freight train hit an empty commuter train, crushing a passenger car and derailing six empty freight wagons. The resultant total claim was settled at about EUR 700,000 (USD 864,200).

Most GTP claims relate mainly to property damage (to clothing or vehicles, for example) and the typical value is usually a maximum of EUR 300 (USD 405).

Death claims are in the range EUR 50,000 to EUR 100,000 (USD 67,500/USD 135,000); disability claims could reach a maximum of EUR 1mn (USD 1.35mn).

Major Insurers

The leading general third party liability insurers and their market shares are shown below.

Company	Market share 2012 (%)
If Eesti	49.27
ERGO	25.55
Codan	8.77
Seesam	8.56
BTA	3.83

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Reinsurance

Proportional treaties (quota share and surplus) are placed but non-proportional covers are also used. Claims series clauses are in use. Separate treaties for GTP and professional liability may be placed.

Distribution

Brokers are an important distribution channel for industrial and commercial business. Larger insurers have specialist departments to deal with the more important insurance buyers on a direct basis. Insurers' agency networks handle a significant proportion of the smaller commercial risks business.

Product Liability

Summary and Trends

Product liability business is underdeveloped in Estonia but while the number of policies has fluctuated over the years, there are some clear signs of slow growth in the account.

Product liability (also known as producer's liability) insurance is available in Estonia as part of a combined wording with GTP or as a stand-alone cover.

Over the years demand has been increasing, as the EU export market has opened up and product liability insurance has been required for exports, but it has generally remained at a low level and subject to the vagaries of export markets. One important driver of this market is the EU directive extending liability to those who import, retail, label or sell goods: this has brought shops, hotels and even schools into the ambit of producer's liability (the last two because they may sell or prepare food).

Whilst Estonian society is not particularly litigious and individuals were not encouraged to use the courts under the Soviet legal system, awareness of rights and responsibilities among individuals is growing nowadays, and citizens are said to be becoming more ready to seek legal redress. The number of cases per capita remains very low, however, and does not approach the levels seen in more developed markets.

Amounts of compensation for bodily injury are modest. Claims awareness is increasing, but currently seems to be limited to property damage, where the perceived value is greater than in bodily injury.

Given the lack of risks and claims experience in Estonia, there is little technical basis for rating and insurers can produce a wide range of rates for the same risk.

Legislative Update

There has been no recent new legislation that might affect product liability.

Projected Legislation

No projected legislation affecting product liability was known of when this report was in preparation.

Statistics

There are no separate statistics.

Limits and Scope of Cover

Product liability (also known as producer's liability) insurance is available in Estonia as part of a combined wording with GTP or as a stand-alone cover.

It is understood that in the absence of any formal, legally defined trigger, insurers' policy wordings reflect their interpretation of the law but while either losses occurring or claims made cover used to be available, in 2014 it was reported that the local market now only offers losses occurring covers. Claims made policies are said only to be available from insurers operating in Estonia on a freedom of services basis.

As an example, one wording states that insured events are those occurring during the insurance period (or retroactive period) and claims must be advised within the insurance period (or extended reporting period). Another wording covers insured events occurring during the insurance period but allows for retroactive cover.

Indemnity limits vary but EUR 500,000 (USD 675,000) or EUR 1mn (USD 1.35mn) are typical but sometimes more. Annual aggregate limits of twice the event limit are imposed.

Primary/excess covers are not a major feature of the market but sometimes primary local covers are set up with excess layers placed abroad in global programmes.

Policies are issued under Estonian jurisdiction, but the territorial scope of jurisdiction can be widened by agreement.

By market practice legal costs, which are included in the indemnity limit, are limited to a percentage (frequently 10%) within the overall limit or are subject to a fixed amount in addition to the indemnity limit. Deductibles are not applied to legal costs.

Punitive damages are not specifically excluded but are not a feature of the Estonian legal system.

There are no product liability insurances compulsory by law.

Rating and Deductibles

Given the lack of risks and claims experience in Estonia, there is little technical basis for rating and insurers can produce a wide range of rates for the same risk.

Loss Experience

Loss experience has reportedly been excellent.

Claims relate mainly to property damage (to clothing or vehicles, for example) and the typical value is usually a maximum of EUR 300 (USD 405).

Major Insurers

The major liability insurers are If Eesti, ERGO, Codan (RSA) and Seesam.

Reinsurance

Proportional treaties (quota share and surplus) are placed but non-proportional covers are also used. Claims series clauses are in use. Separate treaties for GTP and professional liability may be placed.

Distribution

Brokers are an important distribution channel for industrial and commercial business. The larger insurers have specialist departments to deal with the more important insurance buyers on a direct basis. Insurers' agency networks handle a significant proportion of the smaller commercial risks business.

Territorial Limits

Exports to the US and Canada are generally excluded from cover but insurance can be given on negotiation.

Special Risks

There is little manufacture of animal feeds or pharmaceutical products but such products are distributed throughout Estonia.

Product Guarantee, Recall and Malicious Product Tamper

Product guarantee cover is not normally available in Estonia.

Recall cover is available but demand is minimal.

No malicious product tamper cover is believed to be available in Estonia.

Professional Indemnity

Summary and Trends

Premium income in 2012 totalled less than EUR 500,000 (USD 642,400), with about half related to compulsory classes.

Professional indemnity income has been growing slowly as demand has increased. Limits bought are low, however, and are often just the statutory minimum, and premium levels per policy are not high. The exception in 2014 was cover for architects/engineers, where rates have recently tripled in some cases.

Professional liability is compulsory for a number of professions in Estonia but others also insure, frequently as a contractual requirement (here too sums are modest).

To satisfy EU requirements with regard to patient's rights, Estonia is looking to introduce medical malpractice cover. Although draft legislation has been prepared, the government has decided to slow the process and re-think the proposals. In January 2014 no firm timetable was in place for its introduction. At the moment it is not clear what form of cover will be made available: it is possible that cover will be on a strict liability basis but other options are under consideration. According to reports, about 60% to 65% of medical service providers already have this type of cover on a voluntary basis.

Claims awareness is increasing and there are said to have been some relatively large losses with notaries as well as architects and/or engineers responsible.

The collapse of the roof of the Maxima supermarket in Riga which occurred in November 2013, killing 54 people has been attributed to faults in design, but has not reportedly had too much impact on the insurance buying patterns of construction professionals in Estonia: supervision of construction in Estonia is regarded locally as technically superior to that in Latvia.

It is understood though that while construction companies are less concerned with reviewing the amount of insurance cover they buy, designers/architects and engineers are having problems with their professional indemnity cover. Such problems are not solely connected to the Riga catastrophe but are related to the very high loss ratios such business produces. These professions are seeing premiums triple in some cases.

Legislative Update

There has been no recent new legislation that might affect professional indemnity.

Projected Legislation

To satisfy EU requirements with regard to patients' rights, Estonia is looking to introduce medical malpractice cover. In January 2014 no firm timetable was in place for its introduction.

The Alternative Investment Fund Managers Directive (2011/61/EU) should have come into force in all EU member states with effect from 22 July 2013, but implementation of the directive in Estonia is not expected until the first quarter of 2014 at the earliest. According to the directive such fund managers are free to choose whether to cover their professional liability through additional own funds or by an appropriate professional indemnity insurance.

Statistics

No separate statistics are available for the Estonian market.

Limits and Scope of Cover

Cover is given on the basis of "acts committed" by the insured in respect of professional activities, and for which he or she is liable in civil law.

Claims must be made within a two-year reporting period; this period is extended to 10 years for notaries.

Limits for compulsory classes are outlined under the Professions heading in this Professional Indemnity subsection.

Rating and Deductibles

Rates vary according to profession and loss experience.

For architects/engineers, for whom some relatively sizeable losses have been seen, an operation with a turnover of EUR 300,000 (USD 405,000) to EUR 500,000 (USD 675,000), with a deductible of EUR 500 (USD 675), would be subject to a premium of around EUR 5,000 (USD 6,750) for a claims-free risk.

Loss Experience

Loss experience has been good but a number of relatively large claims have been reported, some of which have exceeded the indemnity limit.

The largest part of claims from notaries tends to be for legal expenses rather than actual compensation. Notary-related claims of up to EUR 1mn (USD 1.35mn) have been reported.

The typical range of claims from architects and/or engineers may be up to EUR 20,000 (USD 27,000). One of the largest claims was reported in 2005: although the claim was valued at EEK 5mn (USD 442,500), the payment was subject to the EEK 1mn limit. The frequency of claims of EUR 100,000 (USD 135,000) has increased but settlement is for lower amounts.

Claims made against doctors are usually for repayment of fees rather than the consequences of malpractice.

Major Insurers

If Eesti, ERGO and Seesam are the leading insurers.

Reinsurance

Proportional treaties are placed, often for all liability classes but with separate limits for professional indemnity.

Distribution

Brokers are an important source of business.

Professions

Professional indemnity is a statutory obligation for a range of professions including notaries, auditors, barristers (advocates), trustees in bankruptcy, bailiffs, assayers, patent attorneys and insurance intermediaries.

Under the *Notaries Act,* notaries are required to carry liability insurance with limits of at least EUR 63,910 (USD 86,365) per event (formerly EEK 1mn) and EUR 191,700 (USD 259,054) in the annual aggregate (formerly EEK 3mn).

Under the *Auditors Activities Act* of 2010 auditors are required to carry liability insurance, as detailed below.

For a private limited company, a public limited company or a European company:

- at least 10 times the amount of the fees of the two biggest client contracts of the last completed activity report period of the insured, but not less than EUR 64,000 (USD 86,500) per event
- 10 times the amount of the fees of the three biggest client contracts of the last completed activity report period of the insured, but not less than EUR 64,000 for all the claims submitted in a year.

The insurance coverage for an audit firm operating as a sole proprietor, a general partnership or limited partnership shall be:

- at least five times the amount of the fees of the two biggest client contracts but not less than EUR 32,000 (USD 43,200) per event
- five times the amount of the fees of the three biggest client contracts but not less than EUR 32,000 for all the claims submitted in a year.

The deductible per event shall not exceed:

- the share capital of the audit firm or the fixed capital of a European company
- EUR 3,000 (USD 4,050) in the case of an audit firm operating as a limited partnership or general partnership or sole proprietor.

Under the *Bar Association Act* barristers are required to carry liability insurance with limits of at least EUR 63,910 (USD 86,365), formerly EEK 1mn.

Under the *Bankruptcy Act* trustees are required to carry liability insurance with limits of at least EUR 63,910 (USD 86,365) formerly EEK 1mn per event and EUR 300,000 (USD 405,400), formerly EEK 5mn in the annual aggregate.

Under the *Bailiffs Act* bailiffs are required to carry liability insurance with limits of at least EUR 63,910 (USD 86,365), formerly EEK 1mn per event and in the aggregate. The maximum amount of insurance indemnities payable for all insured events having taken place within the period of insurance shall be not less than EUR 191,700 (USD 259,054).

Under the *Precious Metal Articles Act* assayers are required to carry liability insurance with limits of at least EUR 6,391 (USD 8,636), formerly EEK 100,000.

Under the *Patent Agents Act* patent agents are required to carry liability insurance with limits of at least EUR 63,910 (USD 86,365), formerly EEK 1mn.

Under the *Insurance Activities Act* insurance intermediaries are required to have liability insurance with limits in accordance with EU directives.

Cover for architects and engineers is usually required by contractors but it is reported that these professionals are finding it difficult to get cover. The normal professional indemnity limit for construction-related professions varies, but EUR 64,000 (USD 86,400) is common: higher limits such as EUR 320,000 (USD 432,000) or EUR 640,000 (USD 864,000) are also found. For some professions, the indemnity limit is the same as the contract value, not the potential exposure.

Polices tend to be on an annual basis, but project specific policies are seen. The use of London market clauses which extend coverage to include design faults is recommended by the major international brokers and these are applied by local insurers.

Other professions buying cover include sworn translators, real estate brokers and doctors.

The market for medical malpractice is limited to dentists and family doctors in private practice; limits are low, around EUR 3,200 (USD 4,320) for dentists, and EUR 16,000 (USD 21,600) for others. Medical personnel working in the public sector have a personal liability for errors and omissions.

The Alternative Investment Fund Managers Directive (2011/61/EU) should have come into force in all EU member states with effect from 22 July 2013, but implementation of the directive in Estonia is not expected until the first quarter of 2014 at the earliest. According to the directive such fund managers are free to choose whether to cover their professional liability through additional own funds or by an appropriate professional indemnity insurance.

To satisfy EU requirements with regard to patient's rights, Estonia is looking to introduce medical malpractice cover. Although draft legislation has been prepared, the government has decided to slow the process and re-think the proposals. In January 2014 no firm timetable was in place for its introduction.

Directors' and Officers' Liability

Summary and Trends

In the absence of official figures, estimates from market sources suggest total premium income for directors' and officers' (D&O) liability to be over EUR 300,000 (USD 405,000) from 50 to 100 policies in force.

The major consumers of D&O are foreign-owned enterprises and joint ventures, which purchase this form of cover as a matter of course. Estonian companies, public companies and government agencies are expressing more interest and this market segment has been growing.

Some initial public offerings do take place without D&O cover in place: instead of purchasing D&O, attempts are sometimes made to reduce board members' liability through the wording of their contracts of service.

As elsewhere in the world, premiums for financial institutions have been increased, in some cases by 50% or more, while premiums for other risks have fallen. Despite a number of companies becoming insolvent as a result of the recession, no major claims have been publicly reported. Some legal expenses have been paid, however.

Cover is available from some Estonian companies as well as other insurers in the Nordic area but coverage for financial institutions is only available from the London market.

Company Law

It is permissible for the company to pay the D&O premium for its directors/officers but as this is an employee benefit, income tax and social tax should be paid on the premium, an amount which equates to a loading of about 68%. If not paid, any claim payment would be subject to income tax of 21%. It is thought to be permissible for the company to otherwise indemnify a director or officer but this is understood to be an area where the relevant law is unclear.

It is understood that in Estonian law it is not easy to demonstrate malfeasance on the part of a company director/officer, and that a successful claim would be a rare occurrence.

The *Commercial Code* sets out the duties and responsibilities of company directors and officers for their errors and omissions.

Chapter 187 of the *Commercial Code* sets out the liability of members of the management board as detailed below.

1. A member of the management board shall perform his or her duties with due diligence.
2. Members of the management board who cause damage to the private limited company by violation of their obligations shall be jointly liable for compensation for the damage caused. A member of the management board is released from liability if he or she proves that he or she has performed his or her obligations with due diligence.
3. The limitation period for assertion of a claim against a member of the management board is five years unless the articles of association of the private limited company or an agreement with the member of the management board prescribe another limitation period.
4. A claim for payment of compensation to a private limited company for damage specified in subsection 2 of this section may also be submitted by a creditor of the private limited company if the assets of the private limited company are not sufficient to satisfy the claims of the creditor. In the case of declaration of bankruptcy of a private limited company, only a trustee in bankruptcy may file a claim on behalf of the private limited company.
5. A creditor or trustee in bankruptcy also has the right to file the claim specified in subsection 4 of this section if the private limited company has waived the claim against a member of the management board, or has entered into a contract of compromise with such member or, upon agreement with the member of the management board, has limited the claim or filing thereof in another manner or reduced the limitation period.

Limits and Scope of Cover

There are no legal restrictions on what type of contract may be issued. Sides A, B and C cover are possible although some insurers may not wish to give full coverage.

Limits typically range from EUR 1mn (USD 1.35mn) to EUR 10mn (USD 13.5mn).

D&O cover is given as part of a public/product liability policy (subject to a sub-limit) as well as in other packages (for banks for example); more cover is given in this way than through stand-alone contracts.

Rating and Deductibles

Premiums for D&O cover are inexpensive in Estonia: EUR 5,000 (USD 6,750) to EUR 10,000 (USD 13,500) for EUR 1mn (USD 1.35mn) of cover for commercial risks. Premiums are higher for financial institutions. Pricing trends tend to follow those seen in the Nordic region generally.

Loss Experience
Despite a number of companies becoming insolvent as a result of the recession, no major claims have been publicly reported. Some legal expenses have been paid, however.

Major Insurers
The main local companies such as If Eesti, Seesam and ERGO are involved in this class but only in a fronting capacity. The main risk carrier is understood to be AIG which is involved in the Estonian market on a freedom of services basis from Finland.

Reinsurance
This business is fronted and thus is reinsured 100% into international markets.

Distribution
The main international brokers such as Aon and Marsh are involved in placing this business.

Pollution and Environmental Liability

Summary and Trends
There is some demand for insurance including pollution cover coming from railway companies, petrol stations and waste handling companies, as it is a statutory requirement for such companies (under the *Railways Act,* the *Liquid Fuel Act* and the *Waste Act)*. Environmental liability insurance must also be purchased for projects which are funded by the EU.

Demand is reportedly being met by a few insurers but on a selective basis and in return for high premiums. The widest insurance is not available locally and cover for gradual pollution has to be obtained from the London market.

The *Environmental Liability Act* transposes the EU *Environmental Liability Directive* into Estonian legislation: it has been formally adopted. Environmental liability insurance is not a statutory requirement, however, and demand for any cover specific to this legislation remained minimal in 2014.

The law works on "the polluter pays" principle but takes a business-friendly approach to the directive. Estonia is allowing businesses to use the "permit" and "state-of-the-art" legal defences against liability for environmental damage, and there is no requirement for them to take out liability insurance. The law extends to individuals as well as companies, however, and covers damage to all nationally protected species and habitats, not just those protected under EU law.

Legislative Update
There has been no recent new legislation that might affect pollution and environmental liability.

Projected Legislation
No projected legislation affecting pollution and environmental liability was known of when this report was in preparation.

Liability

Statistics

There are no statistics available.

Limits and Scope of Cover

Pollution and contamination of any kind is excluded from general third party (GTP) liability policies but some cover can be obtained by endorsement; this is generally limited to sudden and unforeseeable pollution events.

Some cover is reportedly also given on a tacit basis, as some policy wordings in the market are not as closely drafted as they could be.

Cap insurances are available to cover clean-up costs which exceed the estimate contained in a site survey. Limits vary but can reach EUR 15mn (USD 20.27mn).

Rating and Deductibles

No specific information on rating is available.

Loss Experience

No specific information on loss experience is available but it is understood that there have been no notable losses.

Major Insurers

The main local companies such as If Eesti, Seesam and ERGO are involved in this class. AIG is also involved on a freedom of services basis from Finland.

Reinsurance

No specific information on reinsurance is available but it is thought that most reinsurance involves fronting.

Distribution

The main international brokers such as Aon and Marsh are involved in placing this business.

Exposure

The Soviet occupation of Estonia left a legacy of pollution and the emphasis on industrial production led to contamination of the atmosphere, the soil, rivers and the sea. Some of this damage was accidental but much was the result of a lack of concern for the environment.

Over the past two decades Estonia has successfully improved the quality of its environment. With the exception of some known "hotspot" areas, environmental conditions in Estonia are now said to be good.

Nonetheless the north-eastern industrial area and some parts of the coast remain heavily polluted. The worst site is most likely Sillamae where an artificial lake containing 12mn tonnes of radioactive sludge from a uranium plant was created during the period of Soviet control. The lake has been covered in a mixture of oil shale ash and various natural materials to a thickness of up to 13 metres but the waste will remain for centuries.

In rural areas pesticide stores present an environmental risk hazard; some stores were left over from the Soviet era, containing poorly stored and unstable substances.

Industrial risk managers are becoming increasingly aware of the need to control pollution by safeguarding their processes and storage methods.

Financial and Professional Risks

Summary and Trends

The number of banks in Estonia has decreased and the foremost of those remaining now have strategic foreign investors or ownership. The leading banks are Swedbank (Sweden), SEB (Sweden) and Danske Bank (Denmark). Bankers' blanket bonds are bought on a group basis by the parent bank.

Kidnap and ransom insurance is not a feature of the market; there is no demand for this cover.

E-risks insurance is not a feature of the market although there has been some interest from Estonia's IT companies. In May 2007 Estonia suffered several waves of cyber attacks on its email and web systems which were believed to have emanated originally from Russia.

Surety, Bonds and Credit

Summary and Trends

Surety, bonds and credit are grouped together for statistical purposes as financial or pecuniary loss insurance.

In 2014 there was only one credit insurer in the market, the government export credit agency. The international credit insurers are active on a cross-border basis and it seems that demand for their services has grown substantially in recent years: one estimate of premium generated suggests income of about EUR 7mn (USD 9.45mn).

Statistics

No separate figures for credit and bonding are available. In 2014 there was only one credit insurer in the market, the government export credit agency. One estimate of premium generated suggests income of about EUR 7mn (USD 9.45mn) in 2014.

Construction/Other Bonds

There is demand for construction bonds and 60% to 70% of projects are reportedly covered. Banks also compete for this business but only offer guarantees to existing clients. The largest contractors obtain bonds from banks or from foreign-owned insurers.

One driver of this growth in demand is the investment coming from the European Bank for Reconstruction and Development (EBRD), which requires a construction bond to be obtained for projects in which it is involved.

Customs bonds and travel industry bonds are also an important class in Estonia but demand for the former has declined following the country's accession to the EU.

Export Credit

In 2014 there was only one credit insurer in the market, the government export credit agency, KredEx Krediidikindlustus, which offers both domestic trade and export credit.

The international credit insurers are active on a cross-border basis and it seems that demand for their services has grown substantially in recent years: one estimate of premium generated suggests income of about EUR 7mn (USD 9.45mn), split 80 : 20 export credit to trade credit.

In 2014 the insurers who will offer limits to the Estonian market are Atradius and Euler Hermes from Helsinki and Coface underwriting from Riga.

Marsh is the leading intermediary, accounting for almost all of the market.

Domestic Trade Credit

In 2014 there was only one credit insurer in the market, the government export credit agency, KredEx Krediidikindlustus, which offers both domestic trade and export credit.

The international credit insurers are active on a cross-border basis and it seems that demand for their services has grown substantially in recent years: one estimate of premium generated suggests income of about EUR 7mn (USD 9.45mn), split 80 : 20 export credit to trade credit.

In 2014 the insurers who will offer limits to the Estonian market are Atradius and Euler Hermes from Helsinki and Coface underwriting from Riga.

Marsh is the leading intermediary, accounting for almost all of the market.

Mortgage Indemnity Insurance

Mortgage indemnity insurance is not a feature of the market.

Marine, Aviation and Transit

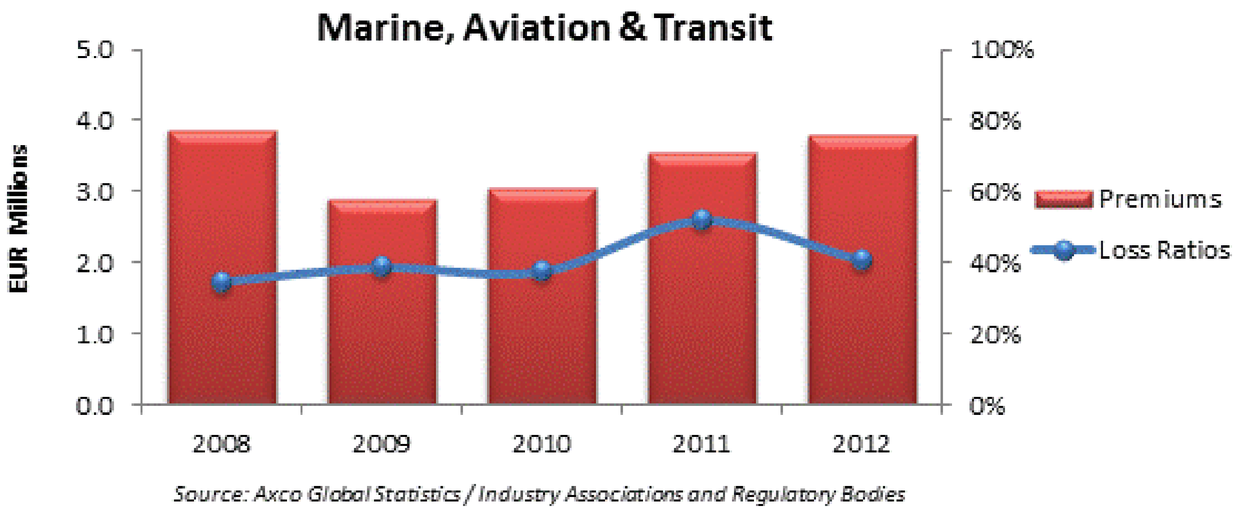
Summary and Trends

Carriers' liability and cargo are the largest classes within the marine, aviation and transit (MAT) branch in Estonia.

Foreign underwriters cover many of the aviation and marine liability risks on a non-admitted basis.

Statistics

Gross written premiums and loss ratios for the last available five years are shown below.



Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.
New statistical information may have been included in the appendices.

Marine Hull

Summary and Trends

Marine hull insurance in Estonia is confined to a small number of fleets and premium income is small.

A few local insurers are licensed to write hull and machinery business, but much is placed abroad, with, for example Gard or Ingosstrakh.

The Baltic market's largest risk, Baltic Ship Repairers (BLRT Group), includes a variety of marine-related risks: shipbuilding, ship-repair, large-scale metal constructions, metal processing and retail in the Baltics. The group's companies also offer machine building, gas production and retail, scrap metal collecting, processing and retail, and logistic, transport and stevedoring services.

Statistics

No separate statistics are available.

Marine Hazard

There are no extreme or unusual marine hazards associated with the Estonian coastline or port approaches. Sandbanks exist but their position is well known. Fog can occur.

The Estonian Maritime Administration has an ice-breaker which is used to keep ports open when required. Ice presents more of a problem in the Gulf of Riga, near Parnu, than Tallinn. The waters are otherwise kept open by other Finnish or Russian vessels. The ferries between the mainland and the islands are said to be strong enough to deal with ice.

Marine Risks

There is no split of marine premium between blue and brown water or fishing vessels.

The Estonian shipping register recorded 147 sea-going vessels of more than 100 gross registered tonnage (grt) at the start of 2012 including 15 merchant ships and 14 passenger vessels. There were 45 fishing vessels.

The Estonian Shipping Company (ESCO) was privatised in 1997 and is now owned by the Norwegian shipowner Tschudi Shipping. ESCO owns seven multi-purpose dry cargo/container vessels. The company's hull insurance is placed in the Norwegian market, with Skuld understood to be the protection and indemnity (P&I) insurer.

AS Tallink Grupp owns 18 vessels altogether, operating under the Tallink and Silja Line brands. It operates several passenger vessels under the Tallink name including 11 ferries, five fast ro pax ferries and two cargo vessels.

There is one major fishing fleet.

Yachts and other pleasure craft are growing in number.

Limits and Scope of Cover

Vessels are placed under different conditions, with Nordic and Russian forms predominating.

Rating

Rates are set by the London and other international marine markets. War risks are understood to be placed in London or with Gard.

Loss Experience and Largest Losses

Loss experience in recent years has been satisfactory.

The worst Estonian marine loss (and in terms of fatalities, the worst ever in Europe and the fourth worst globally in the last century) was that of the ro-ro ferry *Estonia* on 28 September 1994. A total of 910 passengers and crew were killed.

Major Insurers

The larger Estonian vessels are covered outside the country in the Nordic and Russian markets and are placed abroad on a direct basis with no local involvement.

As regards the local market ERGO and If Eesti are insurers of yachts and fishing vessels business.

The leading marine, aviation and transit insurers and their market shares are shown below.

Company	Market share 2012 (%)
ERGO	45.83
If Eesti	20.55
Codan	13.32
Inges	9.73
Salva	7.96

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Reinsurance

Reinsurance is on a facultative or proportional treaty (quota share and surplus) basis and may be combined with cargo.

Distribution

Risks are placed both on a direct basis and through brokers, with Foxtall (co-broker with Marsh on Baltic Ship Repairers) important.

Marine Cargo

Summary and Trends

Cargo insurance is not a major class in Estonia and accounts for just over 0.5% of non-life premium. The carriers' liability class is slightly larger.

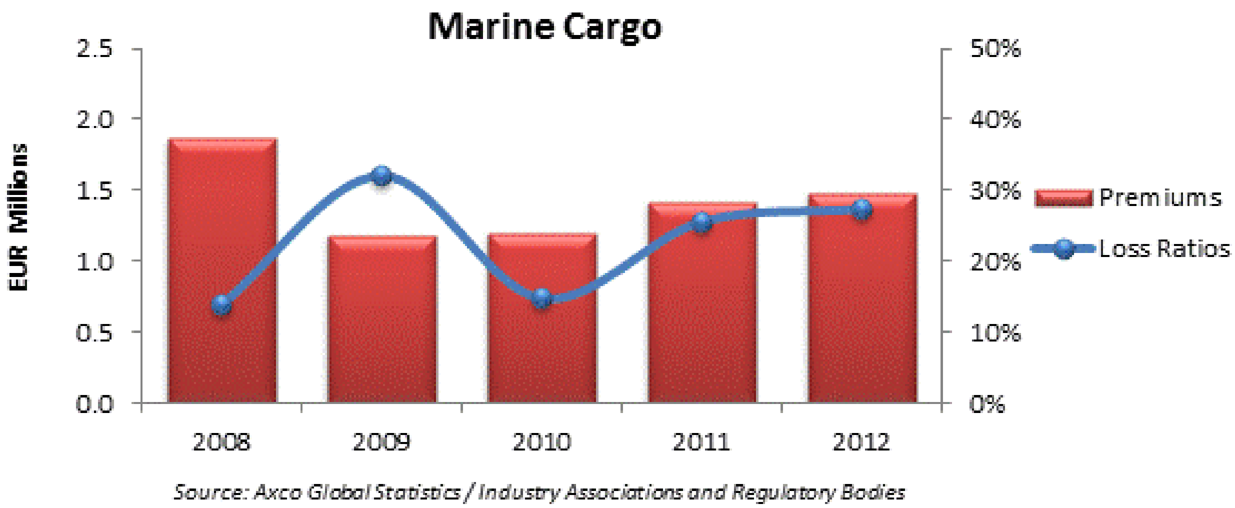
Around 80% of the cargo handled by Estonian ports is transit trade between Russia and the EU, and over 3,300 transport and storage enterprises provide transit services for Russian clients. The major buyers of carriers' liability are the international road transport and freight forwarding companies, which require the necessary insurance in order to facilitate the transit of national borders.

Goods are carried primarily to western Europe, with Germany one of the most important destinations. The number of journeys to Commonwealth of Independent States (CIS) countries is diminishing.

There are no restrictions on insuring cargoes to or from Estonia, carried on FOB or CIF basis. There is no requirement for local insurance companies to be used.

Statistics

Gross written premiums and loss ratios for the last available five years are shown below.



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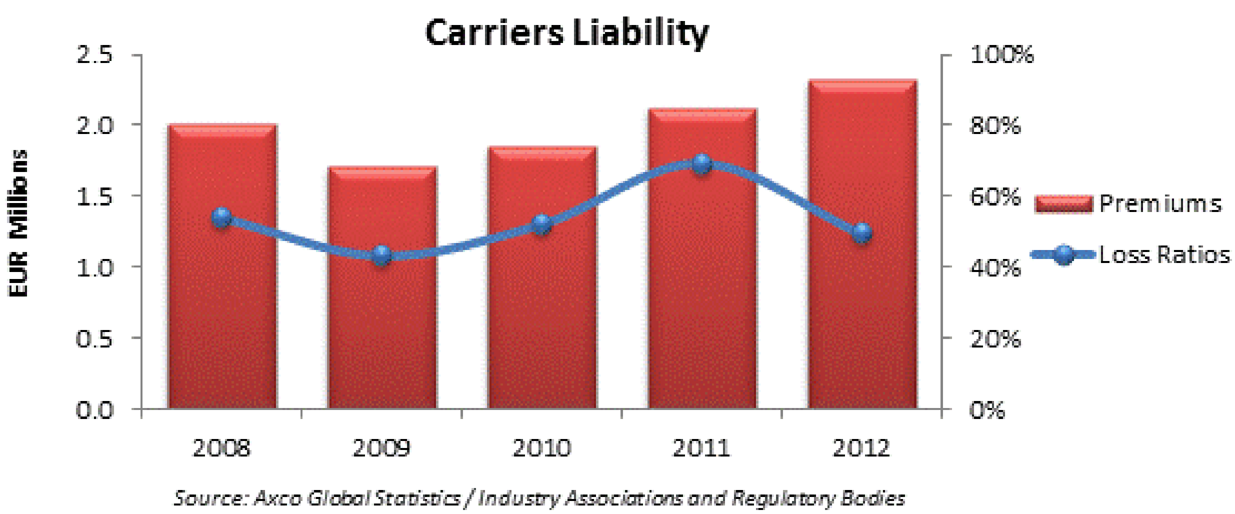

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New statistical information may have been included in the appendices.

Hazard

The port of Tallinn handles various types of cargo: liquid bulk, general cargo, dry bulk, grain and timber. The port consists of four harbours; the old city harbour in Tallinn, Muuga, Paljassaare and Paldiski.

Tallinn is a general port, with cargo and passenger trade. Its cargo activity has diminished since the development of Muuga, but some containers and general cargo are still handled. The major ferry terminals are situated there and this area is intended mainly for passenger traffic use.

Muuga is the largest and most important port and is specialised in handling refrigerated cargoes and grain and bulk cargoes. Muuga is also the ro-ro terminal for ferries to Helsinki and Rostock (Germany). Oil is handled at Muuga with a pipeline to the Maardu complex. The Pakterminal is the largest liquid petro-chemical terminal but also handles coal, timber, oil and other cargoes.

Paljassaare primarily specialises in handling mixed cargo, coal and oil products, as well as timber and perishables.

Paldiski is a former Soviet naval base. Its main cargos are timber, scrap metal and peat.

Parnu is important to the local timber industry.

Stevedoring and general handling are said to be good. Pilferage is rare but does happen occasionally. Speed of clearance is good, but depends on the cargo and weather conditions.

Hijacking of trucks and their loads can occur outside Estonia.

Limits and Scope of Cover

Institute Cargo Clauses are widely used. Ingosstrakh wordings, which are understood to be very similar to Institute Cargo Clauses and are standard in Russia, are available through Inges.

Most business is insured under an open cover; perhaps 90% by premium volume.

Carriers' liability insurance gives cover according to the CMR convention and sometimes also TIR/Carnet insurance according to the TIR/Carnet convention. The typical indemnity limit per trip is USD 50,000 for an annual open cover with a normal maximum of USD 450,000.

Carriers' responsibility for goods being transported is limited to 8.33 SDR per kg and is set out in the new *Law on Obligations* which came into force on 1 July 2002.

Rating

Typical rates for an annual cargo open cover range from 0.15% to 0.2%. The rate for a single voyage could be 0.3% to 0.5%.

The typical rate for an annual carriers' liability open cover is 1.5‰.

Cargo war risks can be placed with If Eesti.

Loss Experience

No major cargo or carriers' liability losses have been reported recently and experience has been good.

Major Insurers

The major local cargo insurers are ERGO, Codan (RSA), Seesam and Salva.

In addition to Marine Insurance Services (MIS) in Latvia, the Lloyd's market is also important and has an estimated 30% market share.

Inges and ERGO are the main insurers of carriers' liability.

Reinsurance

Reinsurance is on a proportional (quota share and surplus) basis and may be combined with hull. Separate carriers' liability treaties are placed.

Distribution

Cargo is placed both directly and through brokers with Vagner and Kominsur, local specialists, along with Foxtall.

Most carriers' liability business is on a direct basis with the members of the Estonian International Carriers Association. Approximately 10% is placed through brokers.

Marine Liability

Summary and Trends

The marine liability market is small and comprises P&I and other types, such as port-related liabilities and ship repairers.

Risks are usually placed abroad as the domestic market has little experience in writing this business.

Local Market

There is little local experience of marine liability insurances and so risks are placed abroad either directly or fronted locally, sometimes with a small retention.

Compulsory Covers

Estonia has signed up to the various international maritime conventions.

As a result Estonian shipowners now must buy meaningful levels of P&I cover.

Pollution

Pollution cover is given as part of a P&I contract and is not provided separately.

Estonia is a signatory to the *International Convention on Civil Liability for Oil Pollution Damage, 1969* (renewed in 1992 and amended in 2000) and often referred to as the CLC Convention, which governs the liability of shipowners for oil pollution damage. More details are available in Axco's separate report on International Agreements.

P&I

Estonia has signed up to the various international maritime conventions.

As a result Estonian shipowners now must buy meaningful levels of P&I cover. This is purchased from outside the country directly, or through brokers from Norwegian clubs Skuld and Gard, together with the UK Shipowners Club and Ingosstrakh for their P&I covers.

Limits of Liability

Normal P&I limits apply.

Major Insurers

Local insurers are not risk carriers of marine liability insurance to any meaningful extent.

Energy

Summary and Trends

There is no experience of this class amongst local insurers. Eesti Energia's cover is placed in the Finnish and London markets.

Aviation

Summary and Trends

Aviation in Estonia mostly relates to the national carrier, Estonian Airlines, which is mainly state-owned with SAS having the balance. Other aviation risks comprise a small amount of general aviation.

All aviation insurance business is placed abroad.

Statistics

No aviation premiums have been reported since 2003.

Airlines

Aviation in Estonia mostly relates to the national carrier, Estonian Airlines, which is mainly state-owned with SAS having the balance. Other aviation risks comprise a small amount of general aviation.

Insurances are placed in international markets. The Estonian Air fleet currently consists of Boeing 737 300s, 737 500s and Saabs.

General Aviation

There is some general aviation hull business including both fixed-wing and helicopters. Business is placed abroad within the region and the London market, but hull insurance is not always bought as it is expensive and risks mainly involve PA and liabilities. Hull insurance is only arranged when aircraft are bought with a bank loan; this is perhaps 30% of all cases.

Space
Space risks are not written in this market.

Aviation Liabilities
Air passenger carriers' liability is compulsory under the *Aviation Act* and limits are in line with EU *Directive EC 785/2004*. The act does not state whether liability insurance can only be offered by insurers permitted to operate in Estonia.

There is no local market for aviation-related liabilities. Estonian Air Traffic Control and other airport liabilities are placed in the London market by the international brokers.

Loss Experience
Recent loss experience has been good.

Major Insurers
Estonian insurance companies are not involved in this class.

Reinsurance
Estonian insurance companies are not involved in this class.

Distribution
Airline and major aviation risks are handled by international brokers from the London market.

Personal Accident and Travel

Personal Accident

Summary and Trends

Personal accident written by non-life insurers makes up about 2% (2012 figures) of non-life business.

The PA market is divided into two main components:

- PA written by non-life insurers on a short-term basis
- PA written by life insurers, either stand-alone or as supplementary cover to the main life policy and providing an additional sum in the event of death or injury by accident.

Short-term PA is usually bought on a group basis by employers and is used primarily as a substitute for workers' compensation insurance.

Any insurance bought for the benefit of employees attracts income and social insurance taxes at a combined rate of about 70%, but PA is still purchased as it is deemed to give the best protection; PA is not based on negligence and therefore gives "no fault" cover. It is reported that, to overcome this position, the employer may be designated the beneficiary but as no person's life can be insured without their permission, this does involve getting the approval of all employees and can be administratively cumbersome. It is understood that another possibility is to pay for group PA cover out of taxed income.

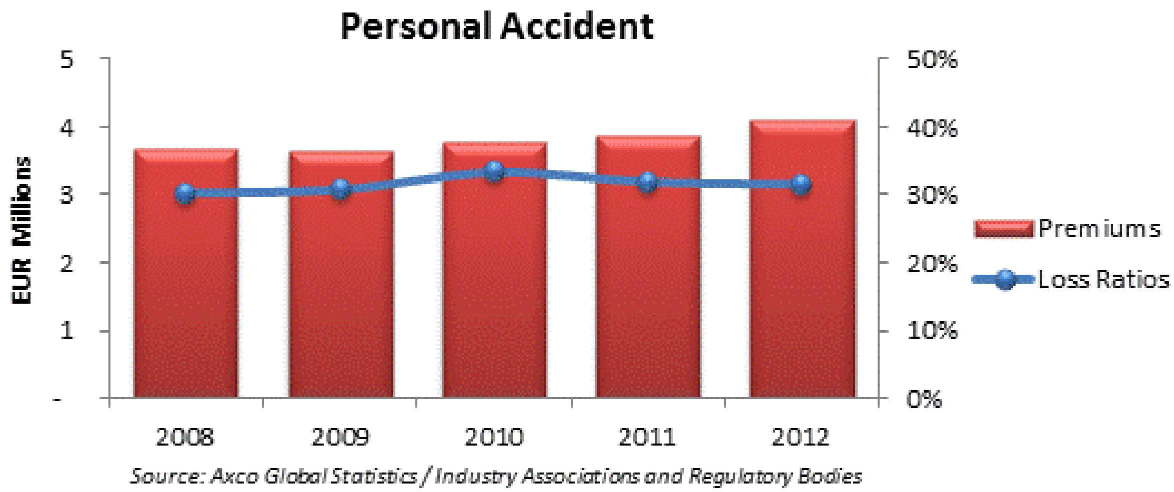
A law on compulsory workers' compensation insurance was expected to come into force as early as 1 January 2003 but introduction has been postponed in view of political difficulties. In early 2014 some observers declared that there was increasing pressure for this insurance to be introduced and that it was merely a matter of time. No material progress is expected before the next general election in 2015, but if introduced it will undoubtedly affect the PA market.

Around 65% of PA business is said to relate to group PA with the balance bought by individuals. Individual PA is bought for travel purposes, for family protection and to cover bank loans. It is said that some employers (especially outside Tallinn) demand PA insurance for potential employees so that they will not be required to pay compensation for any possible work-related injury.

Supplementary PA insurance is essentially a marketing tool designed to make individual life cover more attractive and is included in life insurance statistics. Life companies can also transact stand-alone PA and sickness covers.

Statistics

Gross written premiums and loss ratios for the last available five years are shown below.



Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.
New statistical information may have been included in the appendices.

Limits and Scope of Cover

Limits for death or disability vary according to individual need but indicative levels are EUR 25,000 or EUR 50,000 (USD 33,780/USD 67,600). These levels can reach EUR 100,000 (USD 135,000) or higher for death. Disability is paid according to a table of indemnity where a percentage of the sum insured is paid according to the particular trauma; for example, amputation of the arm would result in a compensation payment of 70% to 80%.

Daily cash allowances can be paid, of which EUR 10 (USD 14) is indicative.

As an employee benefit, group PA cover is bought for all employees for limits of up to EUR 25,000 (USD 33,780) for blue-collar employees, EUR 50,000 (USD 67,600) for white-collar workers, or EUR 100,000 (USD 135,000) for management. Cover can be limited to working hours only (usually for blue-collar employees) but 24-hour cover is available (for management grades).

Rating and Deductibles

Rates depend on age, sex, occupation and coverage. Indicative rates for death based on a unisex tariff range from 0.04% for disability to 0.25% for death.

There is little competition for this business and little difference between the rates offered by insurers.

Loss Experience

Loss experience has been good with claims largely confined to daily allowances.

Major Insurers

The leading personal accident and sickness insurers and their market shares are shown below.

Company	Market share 2012 (%)
If Eesti	33.70
ERGO	25.58
Seesam	21.59
Swedbank Vara	12.88
Salva	4.19

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Reinsurance

Reinsurance is proportional (quota share and surplus) with an excess loss layer to protect against accumulations.

Distribution

Major accounts are handled by brokers or insurers' corporate client departments. Insurance agents are involved for smaller companies and individuals.

Creditor Insurance

Creditor insurance is a growing feature of the market and is promoted by Estonia's banks. Insurance is given on some credit cards and mortgage loans.

SEB offers Genworth products (from Finland) to its borrowers, while other insurers are developing their own; Genworth's is the only cover to include unemployment.

Travel

Summary and Trends

Travel insurance is a popular product in Estonia and forms a slightly larger part of the non-life market than PA, with almost 4% of the total in 2012.

The main product used to be travel medical expenses, sold as a visa requirement for some countries, but since Estonia's accession to the EU travel to member countries has been easier and an increase in holidays to destinations further and further afield has boosted the travel insurance market.

The market for travel insurance declined in 2009, as the recession and associated unemployment hit Estonians' holiday plans, but premium income held up relatively well in 2010. Reasons for this include high loss ratios which caused insurers to put up rates, and an increase in insurance awareness because of flight cancellations due to the Icelandic ash cloud. The years since 2011 have seen premium income increase with economic recovery as those Estonians who can afford it travel further.

Package policies are available, either for single trips or on an annual basis; the former still predominated in 2014. Some cover is also available to higher level credit card holders.

Moral hazard has not been a particular issue for insurers but some abuse of cancellation cover, with insureds said to be getting false certification of sickness from their doctors. This trend was said to be related to the economic downturn, with insureds losing their jobs or simply changing their minds about a holiday, but has persisted.

Personal Accident and Travel

Statistics

Gross written premiums and loss ratios for the last available five years are shown below.

Note: figures shown for 2008 to 2010 have been converted from EEK to EUR.
New statistical information may have been included in the appendices.

Limits and Scope of Cover

Package policy cover includes PA, disability, medical expenses, repatriation, cancellation, and luggage and personal effects. Some companies allow the client to choose their desired elements of insurance coverage.

Personal liability insurance is not normally part of these packages. Limits for medical expenses cover go up to EUR 100,000 (USD 135,000) for trips to the EU.

For trips to Russia, the sum of EUR 30,000 (USD 40,500) is the minimum, for Ukraine and Belarus EUR 15,000 (USD 20,270).

Swedbank and SEB adds travel insurance to its higher level credit card as an automatic extra benefit, and tenders for the insurance cover annually.

A particular type of travel insurance is intended for people coming into Estonia on a temporary basis; for tourists, those visiting relatives or friends, or on an extended business trip, for whom no cover is provided by Estonia's health system. Such insurance covers the following:

- outpatient treatment costs
- inpatient treatment costs for up to 60 days
- expenses for medicines prescribed by a doctor
- dental treatment expenses of up to a total amount of EUR 35 (USD 47)
- transportation costs related to medical assistance within the borders of Estonia

- transportation back to the country of residence (repatriation)
- sum insured of EUR 7,500 or EUR 30,000 (USD 10,135 or USD 40,500) from some insurers.

Rating and Deductibles

As an indication, the premium for a family trip to Sweden with medical expenses cover of EUR 25,000 (USD 33,780) is EUR 20 (USD 27); for two weeks in America with medical cover of EUR 32,000 (USD 43,200), the premium is EUR 40 (USD 54).

Although there is competition for this business, premium levels have been relatively stable.

Loss Experience

Loss experience has been excellent.

Major Insurers

The leading travel insurers and their market shares are shown below.

Company	Market share 2012 (%)
Salva	29.13
If Eesti	18.29
ERGO	16.23
Seesam	11.15
Swedbank Vara	10.79

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Reinsurance

Reinsurance is proportional (quota share) and is often placed with specialist travel insurance companies.

Distribution

Cover is sold through travel agents, post offices and insurance agents. Travel insurance is also sold through automatic outlets at Tallinn airport. Swedbank has an important account as an additional benefit for its credit card holders.

Appendix No 1 - Market Statistics

Insurance Supervisor's Report

Summary
The supervisor produces an annual report containing an account of its yearly activity.

Change in Format
There has been no change in format.

Date of Latest Report
Data for 2012 has been used.

==

Update April 2014

New statistical information has become available since this report was published. These new statistics may be different from the statistics and commentary in the text of this report, which were prepared at the time of the consultant's visit to the country.

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Non-Life Market Totals

Introduction

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Update April 2014

New statistical information has become available since this report was published. These new statistics may be different from the statistics and commentary in the text of this report, which were prepared at the time of the consultant's visit to the country.

==

Gross written premiums are shown below for the last five available years.

Yearly

Appendix No 1 - Market Statistics

In this table complete years are shown. If quarterly figures are available these are shown under a quarterly table below.

YEAR	2009	2010	2011	2012	2013
TOTAL NON-LIFE Excluding PA & Healthcare					
Premiums EEK mn	3,589.21	3,234.72	205.00	217.78	230.60
TOTAL PA & HEALTHCARE					
Premiums EEK mn	155.84	164.87	11.28	12.48	13.76
TOTAL NON-LIFE INCLUDING PA & HEALTHCARE					
Premiums EEK mn	3,745.05	3,399.59	216.28	230.27	244.36
Growth %	(11.53)%	(9.22)%	(93.64)%	6.47%	6.12%
Premiums USD mn	332.67	287.93	300.65	295.86	324.44
Growth %	(15.96)%	(13.45)%	4.42%	(1.59)%	9.66%
Rate of Exchange to USD	11.2574	11.8069	0.7194	0.7783	0.7532
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies					
Due to rounding some totals may not equal the breakdown above.					

Quarterly

In this table the build up of quarterly figures are shown where these are available. The latest quarter available is shown and for comparison the history back to the same position in the previous year.

YEAR	2012 to Q4	2013 to Q1	2013 to Q2	2013 to Q3	2013 to Q4
TOTAL NON-LIFE Excluding PA & Healthcare					
Premiums EEK mn	217.78	55.43	114.52	171.99	230.60
TOTAL PA & HEALTHCARE					
Premiums EEK mn	12.48	3.69	7.01	10.47	13.76
TOTAL NON-LIFE INCLUDING PA & HEALTHCARE					
Premiums EEK mn	230.27	59.13	121.53	182.45	244.36
Growth %	6.47%	5.15%	5.40%	5.86%	6.12%
Premiums USD mn	295.86	78.50	161.35	242.25	324.44
Growth %	(1.59)%	8.66%	8.92%	9.39%	9.66%
Rate of Exchange to USD	0.7783	0.7532	0.7532	0.7532	0.7532
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies					
Due to rounding some totals may not equal the breakdown above.					

Non-Life Insurance

Premiums and Loss Ratios

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Update April 2014

Appendix No 1 - Market Statistics

New statistical information has become available since this report was published. These new statistics may be different from the statistics and commentary in the text of this report, which were prepared at the time of the consultant's visit to the country.

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Gross written premiums and loss ratios for the major lines of business are shown below. Loss ratios have been calculated on the basis of claims paid to gross written premiums.

Yearly

In this table complete years are shown. If quarterly figures are available these are shown under a quarterly table below.

YEAR	2009	2010	2011	2012	2013
Property					
Premiums EEK mn	868.86	842.30	54.47	59.12	63.12
Growth %	(6.39)%	(3.06)%	(93.53)%	8.53%	6.76%
Premiums USD mn	77.18	71.34	75.73	75.96	83.81
Growth %	(11.07)%	(7.57)%	6.15%	0.32%	10.32%
Loss ratios %	41.88%	40.80%	44.28%	47.76%	46.47%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
Construction & Engineering					
Premiums EEK mn					
Growth %	No statistics available for this class.				
Premiums USD mn					
Growth %					
Loss ratios %					
Combined ratios %					
Motor					
Premiums EEK mn	2,523.46	2,206.23	136.73	143.66	150.69
Growth %	(14.05)%	(12.57)%	(93.80)%	5.07%	4.89%
Premiums USD mn	224.16	186.86	190.07	184.59	200.08
Growth %	(18.34)%	(16.64)%	1.72%	(2.89)%	8.39%
Loss ratios %	66.14%	69.18%	72.53%	63.06%	66.91%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
Workers' Compensation					
Premiums EEK mn					
Growth %	No statistics available for this class.				
Premiums USD mn					
Growth %					
Loss ratios %					
Combined ratios %					
Liability					
Premiums EEK mn	70.24	77.48	5.14	5.39	6.16
Growth %	(13.22)%	10.31%	(93.37)%	5.00%	14.10%
Premiums USD mn	6.24	6.56	7.14	6.93	8.17
Growth %	(17.56)%	5.18%	8.84%	(2.95)%	17.91%

YEAR	2009	2010	2011	2012	2013
Loss ratios %	36.63%	46.67%	49.71%	52.50%	33.26%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
Surety, Bonds & Credit					
Premiums EEK mn					
Growth %	No statistics available for this class.				
Premiums USD mn					
Growth %					
Loss ratios %					
Combined ratios %					
Miscellaneous					
Premiums EEK mn	81.48	61.21	5.13	5.81	6.70
Growth %	37.13%	(24.88)%	(91.63)%	13.38%	15.21%
Premiums USD mn	7.24	5.18	7.13	7.47	8.89
Growth %	30.28%	(28.37)%	37.45%	4.79%	19.06%
Loss ratios %	132.25%	138.95%	22.62%	10.11%	23.79%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
Marine, Aviation & Transit					
Premiums EEK mn	45.17	47.50	3.53	3.79	3.94
Growth %	(25.51)%	5.15%	(92.56)%	7.32%	3.78%
Premiums USD mn	4.01	4.02	4.91	4.87	5.23
Growth %	(29.24)%	0.26%	22.11%	(0.81)%	7.25%
Loss ratios %	38.64%	37.41%	51.78%	40.78%	37.59%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
TOTAL					
Premiums EEK mn	3,589.21	3,234.72	205.00	217.78	230.60
Growth %	(11.70)%	(9.88)%	(93.66)%	6.24%	5.88%
Premiums USD mn	318.83	273.97	284.98	279.82	306.17
Growth %	(16.12)%	(14.07)%	4.02%	(1.81)%	9.42%
Rate of Exchange to USD	11.2574	11.8069	0.7194	0.7783	0.7532
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies					
Due to rounding some totals may not equal the breakdown above.					

Quarterly

In this table the build up of quarterly figures are shown where these are available. The latest quarter available is shown and for comparison the history back to the same position in the previous year.

YEAR	2012 to Q4	2013 to Q1	2013 to Q2	2013 to Q3	2013 to Q4
Property					
Premiums EEK mn	59.12	15.66	31.36	47.03	63.12
Growth %	8.53%	6.79%	6.23%	6.65%	6.76%
Premiums USD mn	75.96	20.79	41.64	62.44	83.81
Growth %	0.32%	10.36%	9.78%	10.21%	10.32%
Loss ratios %	47.76%	43.92%	45.43%	46.25%	46.47%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
Construction & Engineering					
Premiums EEK mn					
Growth %					
Premiums USD mn					

Appendix No 1 - Market Statistics

YEAR	2012 to Q4	2013 to Q1	2013 to Q2	2013 to Q3	2013 to Q4
Growth %					
Loss ratios %	No statistics available for this class.				
Combined ratios %					
Motor					
Premiums EEK mn	143.66	35.39	74.53	112.19	150.69
Growth %	5.07%	3.71%	4.12%	4.45%	4.89%
Premiums USD mn	184.59	46.99	98.96	148.96	200.08
Growth %	(2.89)%	7.17%	7.59%	7.94%	8.39%
Loss ratios %	63.06%	73.04%	69.84%	67.27%	66.91%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
Workers' Compensation					
Premiums EEK mn					
Growth %					
Premiums USD mn					
Growth %					
Loss ratios %	No statistics available for this class.				
Combined ratios %					
Liability					
Premiums EEK mn	5.39	1.62	3.30	4.69	6.16
Growth %	5.00%	4.30%	11.75%	11.52%	14.10%
Premiums USD mn	6.93	2.15	4.38	6.22	8.17
Growth %	(2.95)%	7.78%	15.48%	15.24%	17.91%
Loss ratios %	52.50%	30.13%	32.19%	30.82%	33.26%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
Surety, Bonds & Credit					
Premiums EEK mn					
Growth %					
Premiums USD mn					
Growth %					
Loss ratios %	No statistics available for this class.				
Combined ratios %					
Miscellaneous					
Premiums EEK mn	5.81	1.65	3.31	5.03	6.70
Growth %	13.38%	3.15%	8.50%	15.09%	15.21%
Premiums USD mn	7.47	2.19	4.39	6.67	8.89
Growth %	4.79%	6.59%	12.12%	18.93%	19.06%
Loss ratios %	10.11%	22.17%	16.44%	28.41%	23.79%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
Marine, Aviation & Transit					
Premiums EEK mn	3.79	1.11	2.02	3.05	3.94
Growth %	7.32%	8.34%	2.39%	5.63%	3.78%
Premiums USD mn	4.87	1.48	2.69	4.05	5.23
Growth %	(0.81)%	11.95%	5.81%	9.16%	7.25%
Loss ratios %	40.78%	41.35%	41.39%	37.22%	37.59%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
TOTAL					
Premiums EEK mn	217.78	55.43	114.52	171.99	230.60
Growth %	6.24%	4.65%	4.99%	5.53%	5.88%
Premiums USD mn	279.82	73.60	152.05	228.35	306.17

YEAR	2012 to Q4	2013 to Q1	2013 to Q2	2013 to Q3	2013 to Q4
Growth %	(1.81)%	8.15%	8.49%	9.06%	9.42%
Rate of Exchange to USD	0.7783	0.7532	0.7532	0.7532	0.7532
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies					
Due to rounding some totals may not equal the breakdown above.					

Personal Accident

Premiums and Loss Ratios

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Update April 2014

New statistical information has become available since this report was published. These new statistics may be different from the statistics and commentary in the text of this report, which were prepared at the time of the consultant's visit to the country.

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Healthcare is addressed as a product line within the Axco Life & Benefits reports.

Yearly

In this table complete years are shown. If quarterly figures are available these are shown under a quarterly table below.

YEAR	2009	2010	2011	2012	2013
PA & Healthcare Written By Non-Life Companies					
Premiums EEK mn	155.84	164.87	11.28	12.48	13.76
Growth %	(7.39)%	5.80%	(93.16)%	10.68%	10.23%
Premiums USD mn	13.84	13.96	15.68	16.04	18.27
Growth %	(12.02)%	0.87%	12.28%	2.30%	13.91%
Loss ratios %	47.51%	53.65%	46.95%	45.32%	45.52%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
PA & Healthcare Written By Life Companies					
Premiums EEK mn	51.01	47.13	3.10	3.08	3.69
Growth %	(1.75)%	(7.60)%	(93.42)%	(0.64)%	19.85%
Premiums USD mn	4.53	3.99	4.31	3.96	4.90
Growth %	(6.66)%	(11.90)%	8.02%	(8.16)%	23.85%
Loss ratios %	15.36%	11.09%	15.88%	19.37%	12.59%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
PA & Healthcare Written By Other Companies					
Premiums EEK mn					
Growth %	No statistics available for this class.				
Premiums USD mn					

YEAR	2009	2010	2011	2012	2013
Growth %					
Loss ratios %					
Combined ratios %					
TOTAL					
Premiums EEK mn	206.85	212.01	14.38	15.57	17.46
Growth %	(6.06)%	2.49%	(93.22)%	8.24%	12.14%
Premiums USD mn	18.37	17.96	19.99	20.00	23.18
Growth %	(10.75)%	(2.27)%	11.33%	0.04%	15.88%
Loss ratios %	n/a	n/a	n/a	n/a	n/a
Rate of Exchange to USD	11.2574	11.8069	0.7194	0.7783	0.7532
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies					
Due to rounding some totals may not equal the breakdown above.					

Quarterly

In this table the build up of quarterly figures are shown where these are available. The latest quarter available is shown and for comparison the history back to the same position in the previous year.

YEAR	2012 to Q4	2013 to Q1	2013 to Q2	2013 to Q3	2013 to Q4
PA & Healthcare Written By Non-Life Companies					
Premiums EEK mn	12.48	3.69	7.01	10.47	13.76
Growth %	10.68%	13.18%	12.60%	11.45%	10.23%
Premiums USD mn	16.04	4.91	9.31	13.90	18.27
Growth %	2.30%	16.96%	16.36%	15.17%	13.91%
Loss ratios %	45.32%	47.02%	48.30%	46.28%	45.52%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
PA & Healthcare Written By Life Companies					
Premiums EEK mn	3.08	0.81	1.69	2.67	3.69
Growth %	(0.64)%	4.11%	12.89%	16.77%	19.85%
Premiums USD mn	3.96	1.08	2.25	3.54	4.90
Growth %	(8.16)%	7.58%	16.66%	20.66%	23.85%
Loss ratios %	19.37%	12.89%	12.90%	12.16%	12.59%
Combined ratios %	n/a	n/a	n/a	n/a	n/a
PA & Healthcare Written By Other Companies					
Premiums EEK mn					
Growth %					
Premiums USD mn					
Growth %					
Loss ratios %	No statistics available for this class.				
Combined ratios %					
TOTAL					
Premiums EEK mn	15.57	4.50	8.70	13.13	17.46
Growth %	8.24%	11.43%	12.66%	12.49%	12.14%
Premiums USD mn	20.00	5.98	11.55	17.44	23.18
Growth %	0.04%	15.15%	16.42%	16.25%	15.88%
Loss ratios %	n/a	n/a	n/a	n/a	n/a
Rate of Exchange to USD	0.7783	0.7532	0.7532	0.7532	0.7532
Source: Axco Global Statistics / Industry Associations and Regulatory Bodies					

Appendix No 1 - Market Statistics

YEAR	2012 to Q4	2013 to Q1	2013 to Q2	2013 to Q3	2013 to Q4
Due to rounding some totals may not equal the breakdown above.					

Introduction

The table below shows the direct gross written non-life premium income of Estonian non-life companies in 2011 and 2012.

Insurance Companies

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Update April 2014

New statistical information has become available since this report was published. These new statistics may be different from the statistics and commentary in the text of this report, which were prepared at the time of the consultant's visit to the country.

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Further information on insurance companies is provided within the Market Participants subsection in the Insurance Market Overview section of this report.

Rank	Insurance Companies	Written Premiums		Growth	Market Share	Written Premiums
		2013	2013	EEK	%	2012
		EEK mn	USD mn	%		EEK mn
1	If P&C Insurance AS	63.62	84.48	1.10%	26.04%	62.93
2	ERGO Insurance SE	40.16	53.33	(3.24)%	16.44%	41.51
3	Swedbank P&C Insurance AS	34.95	46.41	6.72%	14.30%	32.75
4	Codan Forsikring A/S Eesti	30.88	41.00	23.84%	12.64%	24.94
5	Seesam Insurance AS	26.27	34.88	10.70%	10.75%	23.73
6	Salva Kindlustuse AS	15.55	20.65	(0.01)%	6.36%	15.55
7	BTA Insurance Company SE Eesti filiaal	13.58	18.03	8.76%	5.56%	12.49
8	AAS Gjensidige Baltic in Estonia	9.40	12.48	46.52%	3.85%	6.41
9	AS Inges Kindlustus	6.14	8.15	(0.53)%	2.51%	6.17
10	Kredex Krediidikindlustus AS	1.67	2.22	14.06%	0.68%	1.46
11	D.A.S. Oigusabikulude Kindlustuse AS	1.64	2.18	31.54%	0.67%	1.25
12	UAB DK PZU Lietuva in Estonia	0.33	0.44	n/a	0.14%	n/a

Appendix No 2 - Company Statistics

Rank	Insurance Companies	Written Premiums		Growth	Market Share	Written Premiums
		2013	2013	EEK	%	2012
		EEK mn	USD mn	%		EEK mn
13	Estonian Traffic Insurance Fund	0.15	0.20	24.64%	0.06%	0.12
	Others	n/a	n/a	(100.00)%	n/a	0.97
	MARKET TOTAL	**244.36**	**324.44**	**6.11%**	**100.00%**	**230.28**

Source: Axco Global Statistics / Industry Associations and Regulatory Bodies

Due to rounding some totals may not equal the breakdown above.

For previous years' data, please visit Axco Global Statistics.

Reinsurance Companies

There are no reinsurance companies in Estonia.

Further information on the reinsurance market is provided in the Reinsurance section of this report.

Industry Organisations

International dialling code: +372

Major city/town codes: Tallinn - 6

Financial Supervision Authority
Finantsinspektsioon (FI)
Sakala 4
EE - 15030 Tallinn
Tel: 668 0500
Fax: 668 0535
www.fi.ee

Estonian Insurance Association
Eesti Kindlustusseltside Liit (EKsL)
Mustamae tee 44
EE - 10621 Tallinn
Tel: 667 1800
Fax: 667 1801
www.eksl.ee

Estonian Insurance Brokers Association
Eesti Kindlustusmaaklerite Liit
Parnu mnt. 158/1
EE - 11317 Tallinn
Tel: 51 72 184
www.ekml.ee

Insurance Companies

International dialling code: +372

Major city/town codes: Tallinn - 6

BTA

Lootsa 2B

11415 Tallinn

Tel: 686 8060

www.bta-kindlustus.ee

RSA (Codan)

Delta Plaza

Parnu mnt 141

11314 Tallinn

Tel: 622 4550

www.royalsunalliance.ee

ERGO

A H Tammsaare 47

EE - 11316 Tallinn

Tel: 610 6500

Fax: 610 6501

www.ergo.ee

Gjensidige Baltic

Sopruse pst 145

13417 Tallinn

Tel: 6755 370

www.gjensidige.ee

If Eesti

Lootsa 8a

EE - 11415 Tallinn

Tel: 667 1100

Fax: 667 1101

www.if.ee

Inges

Raua 35

EE - 10124 Tallinn

Tel: 6410 436

Fax: 6410 438

www.inges.ee

Salva

Parnu mnt 16

EE - 10141 Tallinn

Tel: 680 0500

Fax: 680 0501

www.salva.ee

Seesam

Vambola 6

EE - 10114 Tallinn

Tel: 628 1801

Fax: 631 2109

www.seesam.ee

Swedbank Vara

Liivalaia 12

EE - 15039 Tallinn

Tel: 888 2100

Fax: 888 2221

www.swedbank.ee

KredEx Krediidikindlustus

Hobujaama 4

10151 Tallinn

Tel: 667 4100

www.kredex.ee

Reinsurance Companies

There are no reinsurance companies in Estonia.

Captive Managers

There are no captive managers in Estonia.

Intermediaries

International dialling code: +372

Major city/town codes: Tallinn - 6

Insurance Brokers/Consultants

Aon
Liivalaia 13/15
EE - 10118 Tallinn
Tel: 699 6222
Fax: 699 6223
www.aon.ee

IIZI
Parnu mnt 158/1
EE - 11317 Tallinn
Tel: 6660 300
Fax: 6660 333
www.iizi.net

KindlustusEst Kindlustusmaakler
Mustamae tee 55
EE - 10621 Tallinn
Tel: 12555
www.kindlustusest.ee

Marsh
Tartu mnt 18

Reinsurance Brokers

There are no reinsurance brokers active in Estonia.

Loss Adjusters

International dialling code: +372

Major city/town codes: Tallinn - 6

DPS - Meerits
Kirsi 6-50
EE - 10616 Tallinn
Tel: 015 556
Fax: 015 556
www.dpsurveys.com

Others

International dialling code: +372

Major city/town codes: Tallinn - 6

Estonian Traffic Insurance Fund (ETIF)
Mustamae tee 46
EE - 10621 Tallinn
Tel: 667 1800
Fax: 667 1801
www.lkf.ee