

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

INSURANCE AND PENSIONS SUPERVISION UNIT

Insurance Statistical Review 2014

October 2014

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1. Introduction

This report complements the statistics that have been published by the Malta Financial Services Authority (MFSA) for the general and long-term insurance and reinsurance business of undertakings (“undertakings”) with head offices (HO) in Malta, as at 31st December 2014.

Sections 3 to 5 present the results for undertakings with HO in Malta. Sections 6 and 7 present the results for undertakings with HO both in and outside of Malta. The long-term business with HO outside Malta refers to non-EU/EEA insurers authorised under the Act and EU/EEA insurers servicing life business in the domestic sector through agents. The general business with HO outside Malta refers to non-EU/EEA insurers authorised under the Act and EU/EEA insurers carrying out business in Malta under the right of establishment.

2. Scope of this report

This report provides:

- (1) An analysis of the insurance and reinsurance business in 2014;
- (2) Comparisons for up to 5 years from 2010 to 2014 (where data for all 5 years are not readily available, this is indicated in the relevant sections);
- (3) Explanations for any significant changes since 2013.

For the purposes of this document:

- (1) All figures reported are presented in €m;
- (2) General business refers to general insurance and reinsurance business;
- (3) Long-term business refers to long-term insurance and reinsurance business;
- (4) The results for the composite undertakings have been accounted for within the general and long-term business accordingly;
- (5) The results for the direct insurers include reinsurance business accepted by the direct insurers;
- (6) The results for the undertaking that has gone into liquidation has been excluded from the 2013 and 2014 statistics;
- (7) There are minor rounding effects in the totals in the tables and graphs presented.

3. Industry Overview

As at 31st December 2014, 60 undertakings were authorised by the MFSA to carry out insurance and reinsurance business in terms of the Insurance Business Act (Cap. 403).

The table below provides a breakdown of the number of authorised undertakings by nature of business between 2010 and 2014:

Table 3.1 Breakdown of authorised undertakings by nature of business from 2010 to 2014

Nature of business	2010	2011	2012	2013	2014
General	33	37	42	44	45
Life	8	8	7	7	6
Composite	2	2	2	2	2
Reinsurers	7	7	7	7	7
Total	50	54	58	60	60

Note: These figures have been sourced from the MFSA Annual Reports.

3.1. Gross Written Premiums

The summary of the gross written premiums by nature of business is presented in the following table:

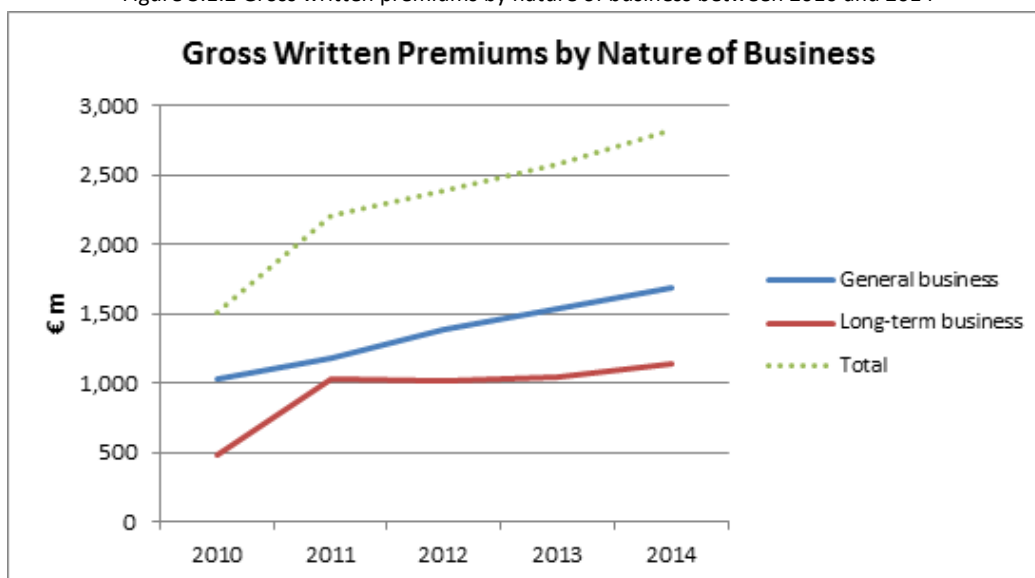
Table 3.1.1 Gross written premiums by nature of business between 2010 and 2014

Nature of business	2010 (€m)	2011 (€m)	2012 (€m)	2013 (€m)	2014 (€m)	% Change 2013/2014
General business	1,026	1,185	1,379	1,531	1,687	10.2%
Long-term business	485	1,022	1,009	1,049	1,141	8.8%
Total	1,511	2,208	2,388	2,580	2,828	9.6%

The total gross written premiums have increased by 9.6% (€248m) from €2,580m in 2013 to €2,828m in 2014. This is due to the increase in gross written premiums observed for both the general and long-term business of 10.2% (€155m) and of 8.8% (€92m) respectively. The growth in the gross written premiums for the long-term business in 2014 of 8.8% has more than doubled when compared to the growth experienced in 2013 of 4.0%. For the general business, the growth in the gross written premiums in 2014 is lower at 10.2% when compared to the growth experienced in 2013 of 11.0%.

The trend of the gross written premiums between 2010 and 2014 is presented in the chart below:

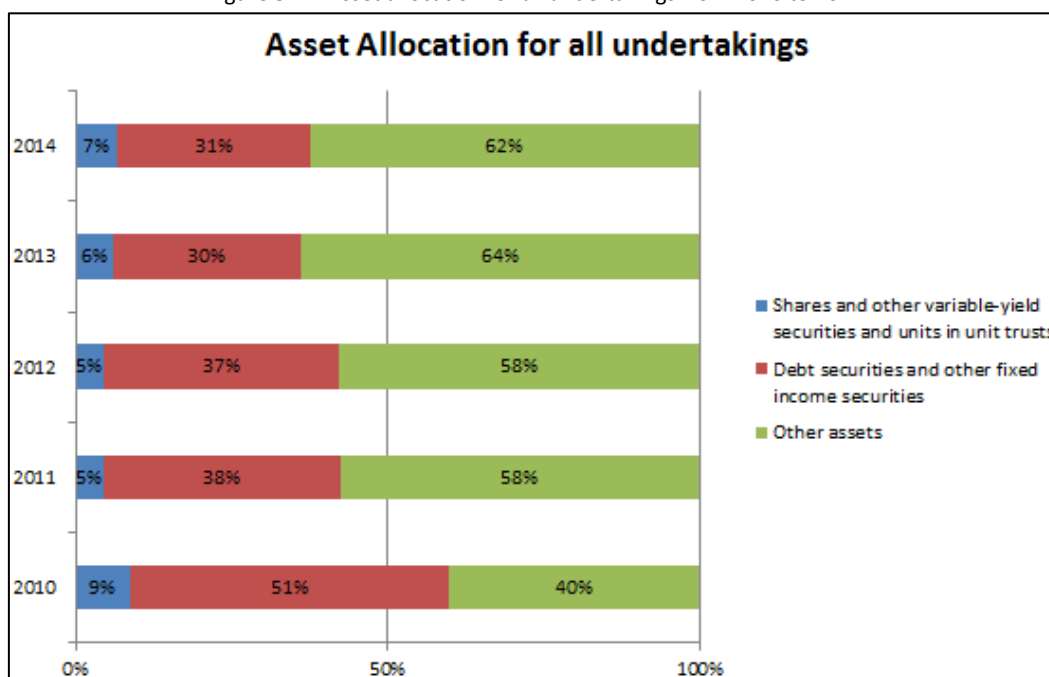
Figure 3.1.2 Gross written premiums by nature of business between 2010 and 2014



3.2. Asset Allocation

The assets referred to in this section relate to financial assets only. The chart below shows the asset allocation for all undertakings from 2010 to 2014:

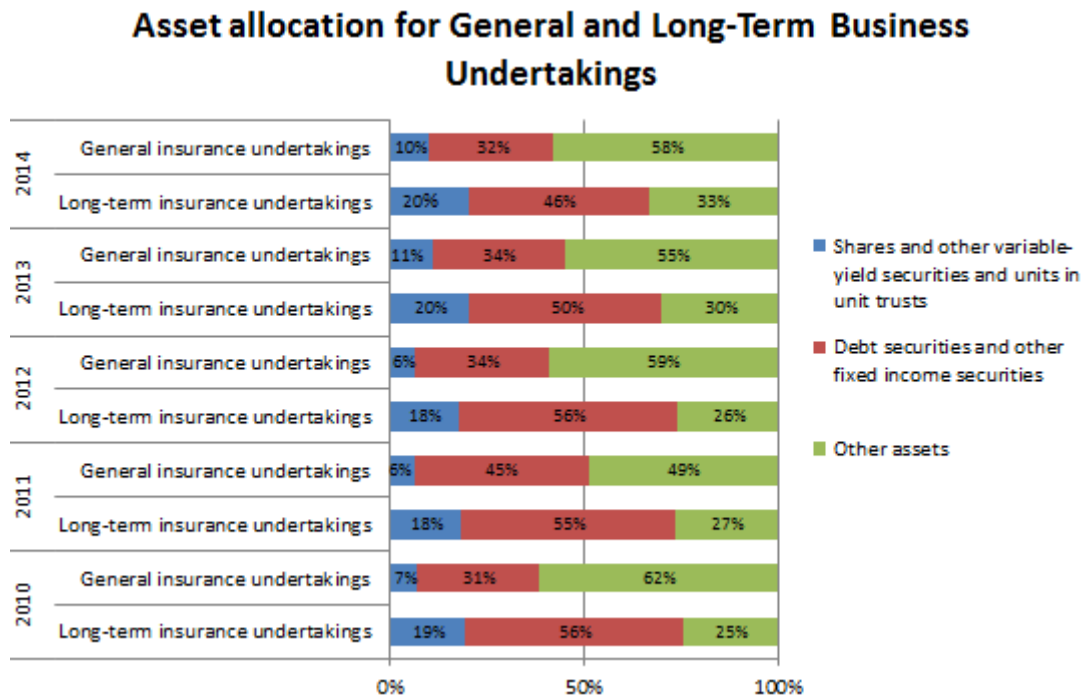
Figure 3.2.1 Asset allocation for all undertakings from 2010 to 2014



Note: The other assets category consists mainly of investments in participating interests, deposits with credit institutions and other financial investments and deposits with ceding enterprises.

In 2014, we observe a small decrease in the allocation of investments in *other assets* and a small increase in the other two asset classes.

Figure 3.2.2 Asset allocation for general and long-term business undertakings from 2010 to 2014

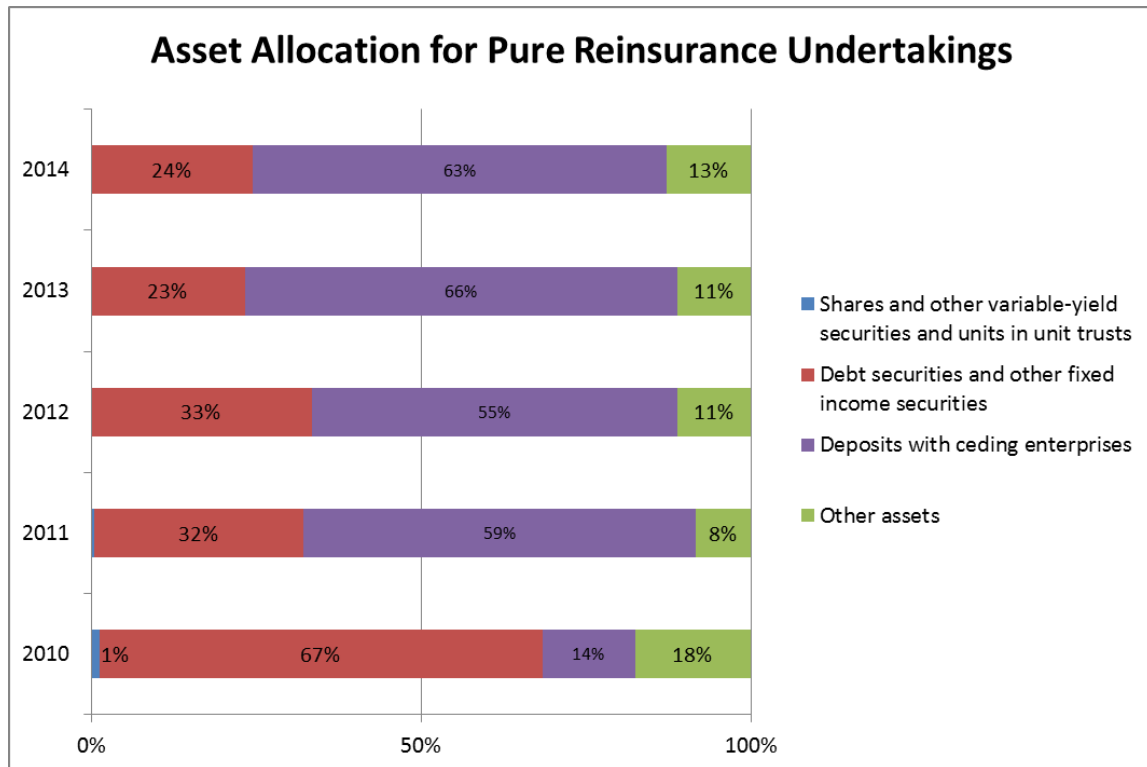


Note: The asset allocation presented here excludes those of the pure reinsurance undertakings.

For the general business undertakings, small decreases were noted in the allocation of investments in *debt securities and other fixed income securities* and *shares and other variable-yield securities and units in unit trusts* between 2013 and 2014. Meanwhile, allocation of investments in *other assets* has increased in the same period.

For the long-term business undertakings, we observe an increase in the allocation of investments in *other assets* and a decrease in the allocation of investments in *debt securities and other fixed income securities*. Allocation of investments in *shares and other variable-yield securities and units in unit trusts* remained unchanged in the same period.

Figure 3.2.3 Asset allocation for pure reinsurance undertakings between 2010 and 2014



Notes:

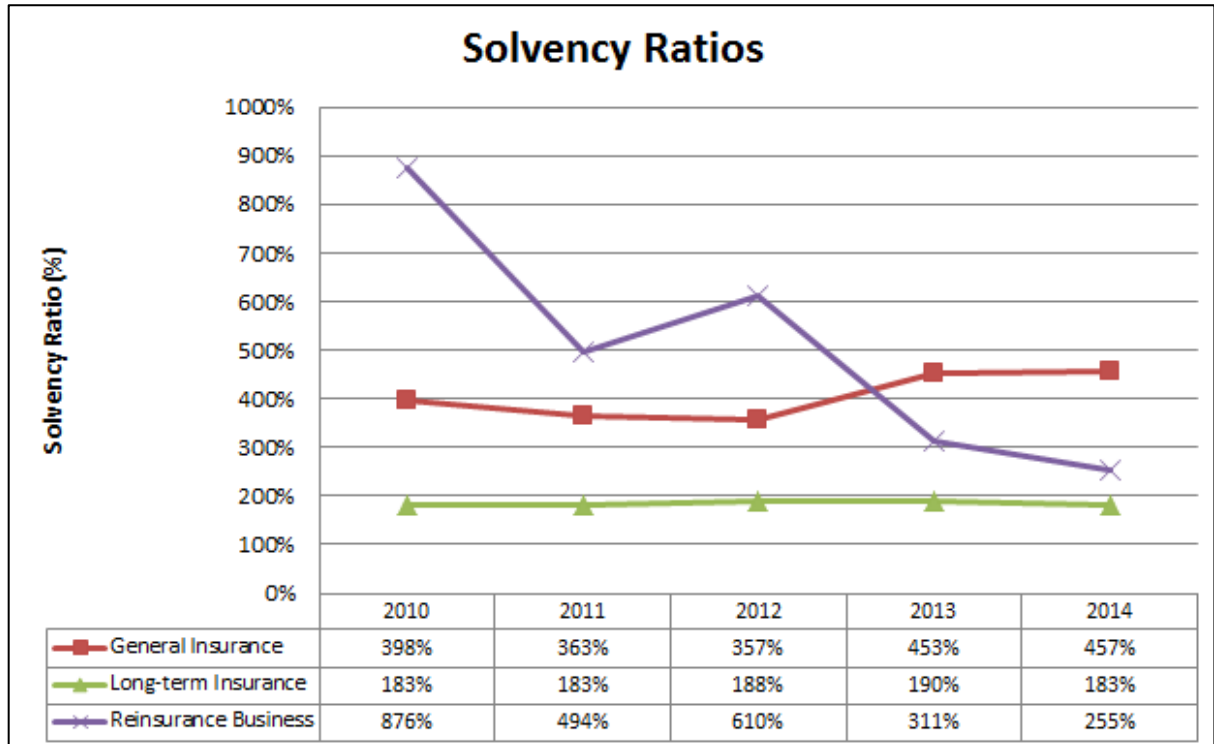
- (1) For the pure reinsurance undertakings, there were an insignificant proportion of assets in shares and other variable-yield securities and units in unit trusts
- (2) From 2011 to 2014, the proportion of shares held by the pure reinsurance undertakings was very insignificant when compared to the total assets held

For the pure reinsurance undertakings in 2014, we observe a small decrease in the allocation of investments in *other assets* and a small increase in the allocation of investments in *debt securities and other fixed income securities*.

3.3. Capital adequacy of Insurance Undertakings

The solvency ratios under Solvency I for all general insurance, long-term insurance, and reinsurance business undertakings from 2010 to 2014 are shown in the chart below:

Figure 3.3.1 Solvency ratios for all undertakings from 2010 to 2014



The following changes in solvency ratios have been observed between 2013 and 2014:

- Increase of 4% for general insurance undertakings;
- Decrease of 7% for long-term insurance undertakings;
- Decrease of 56% for pure reinsurance undertakings.

4. General Business

4.1. Gross Written Premiums

The gross written premiums in respect of the general business written in Malta and outside Malta have increased by 10% (€155m) from €1,531m in 2013 to €1,687m in 2014.

The increase between 2013 and 2014 is due to the significant increase in the volume of business written in all business classes except for the *other* business class.

The *accident and health* business class remains the largest part of the general business written.

4.1.1. Comparison of Gross Written Premiums by Business Class

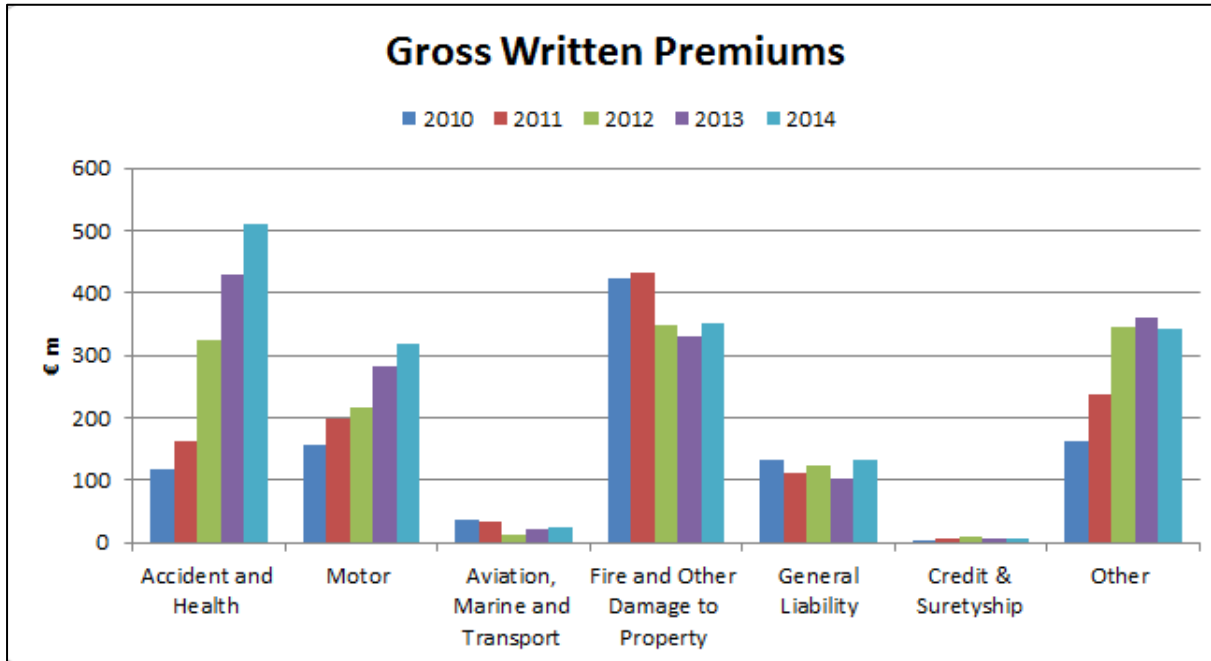
The table below provides a comparison of the gross written premiums between 2010 and 2014 by business:

Table 4.1.1.1 Gross written premiums for all undertakings from 2010 to 2014 by business class

€m	2010	2011	2012	2013	2014	% Change 2013 /2014
Accident and Health	117	163	325	429	511	19%
Motor	155	198	216	282	319	13%
Aviation, Marine and Transport	35	34	11	20	24	17%
Fire and Other Damage to Property	422	434	349	330	352	7%
General Liability	132	112	124	103	132	29%
Credit & Suretyship	2	7	8	6	7	21%
Other*	162	238	347	361	341	-5%
Total	1,026	1,185	1,380	1,531	1,687	10%

*Note: The category labelled as "Other" is made up of the Miscellaneous Financial Loss, Legal Expenses, and Assistance business

Figure 4.1.1.2 Gross written premiums for all undertakings from 2010 to 2014 by business class



4.1.2. Comparison of Gross Written Premiums between risks situated in Malta and outside Malta

The volume of general business written both in Malta and outside Malta has been steadily increasing between 2010 and 2014.

Figure 4.1.2.1 Breakdown of risks written in and outside of Malta from 2010 to 2014

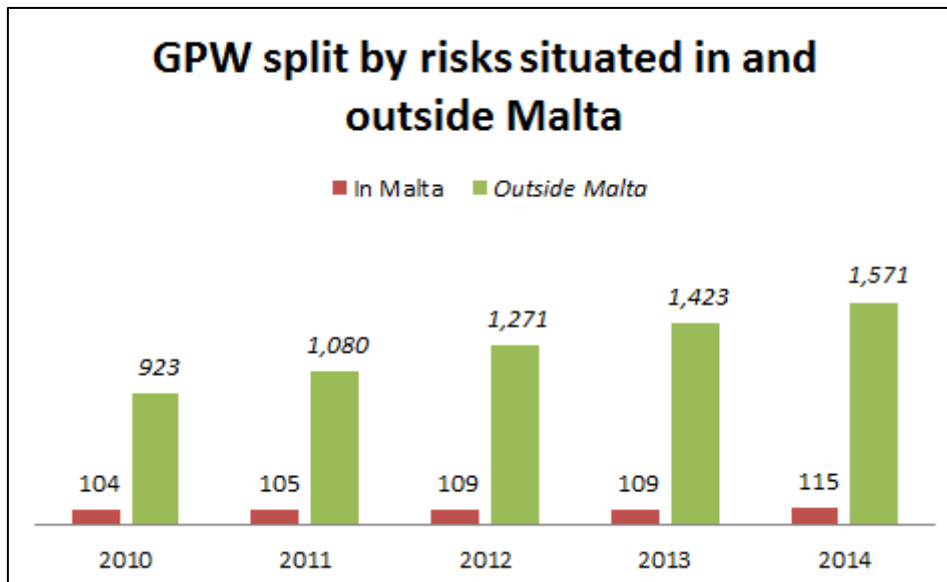
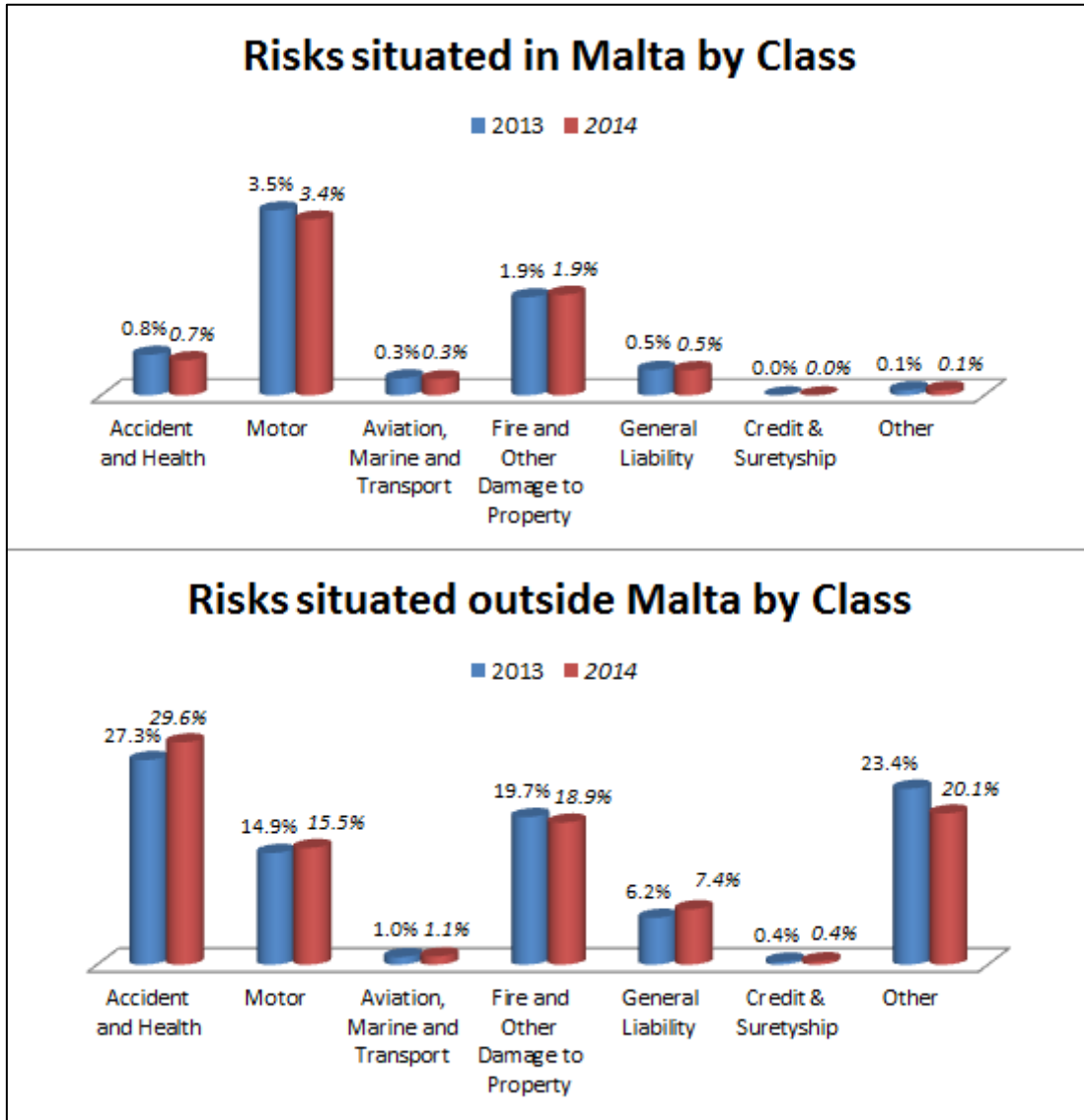


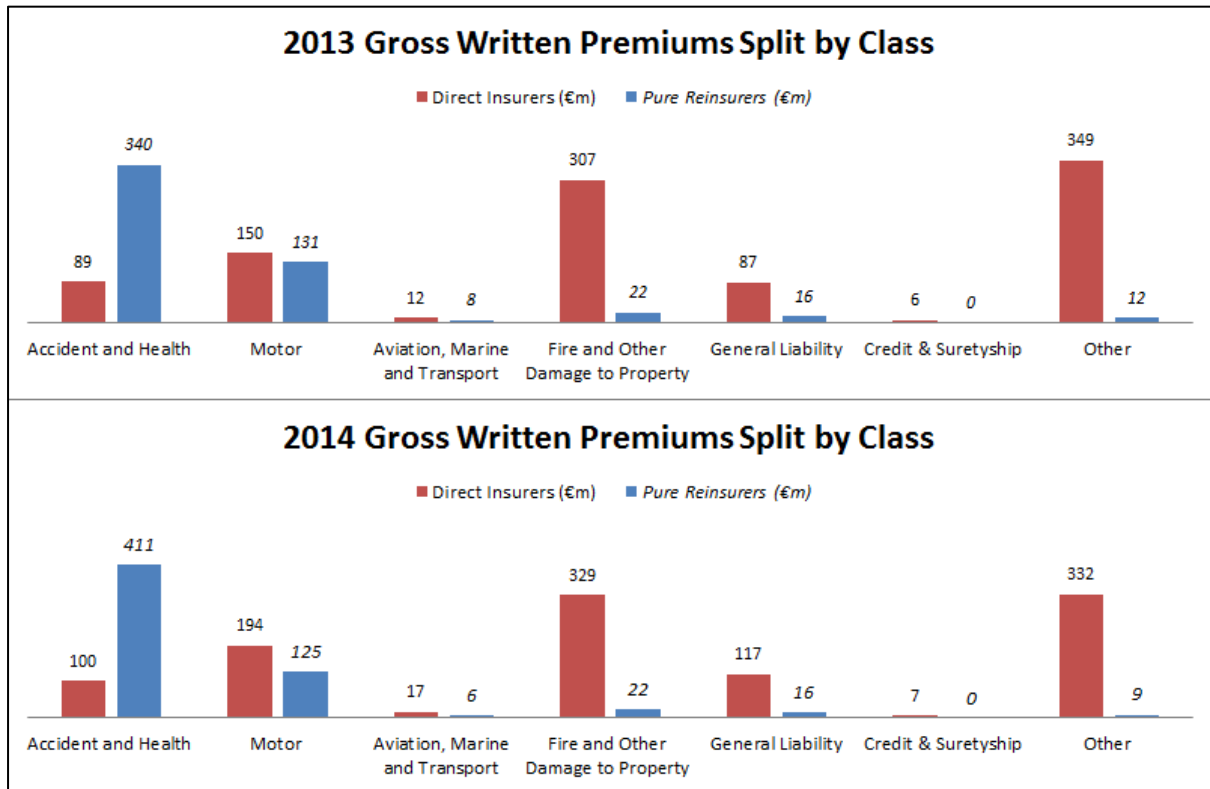
Figure 4.1.2.2 Risks situated in and outside Malta in 2013 and 2014 by business class



4.1.3. Comparison of Gross Written Premiums between Direct Insurers and Pure Reinsurers

The chart below shows the breakdown of the gross written premiums between direct insurers and pure reinsurers for 2013 and 2014 by class of business:

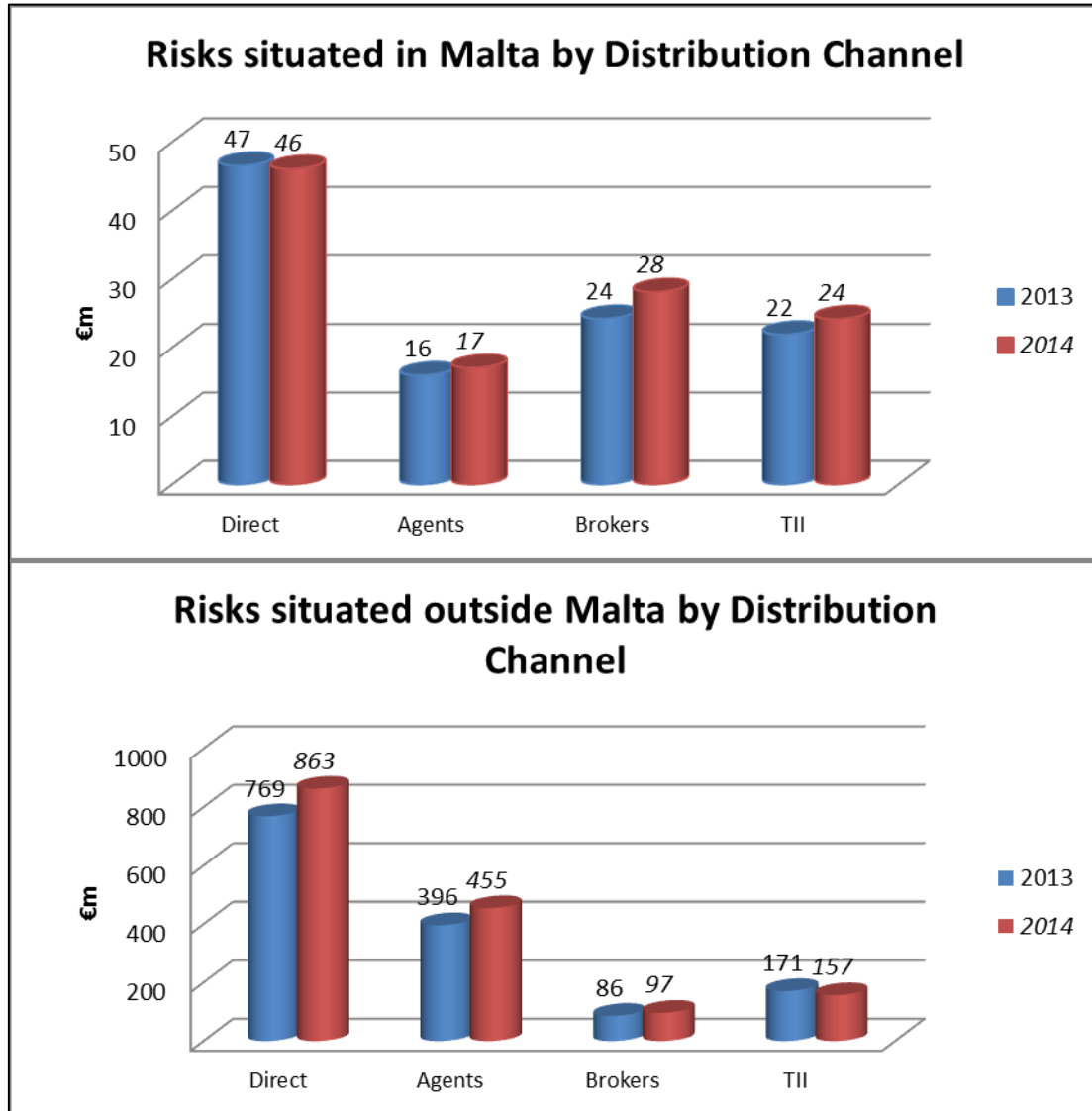
Figure 4.1.3.1 Gross written premiums split between direct insurers and pure reinsurers for 2013 and 2014



4.2. Source of Business

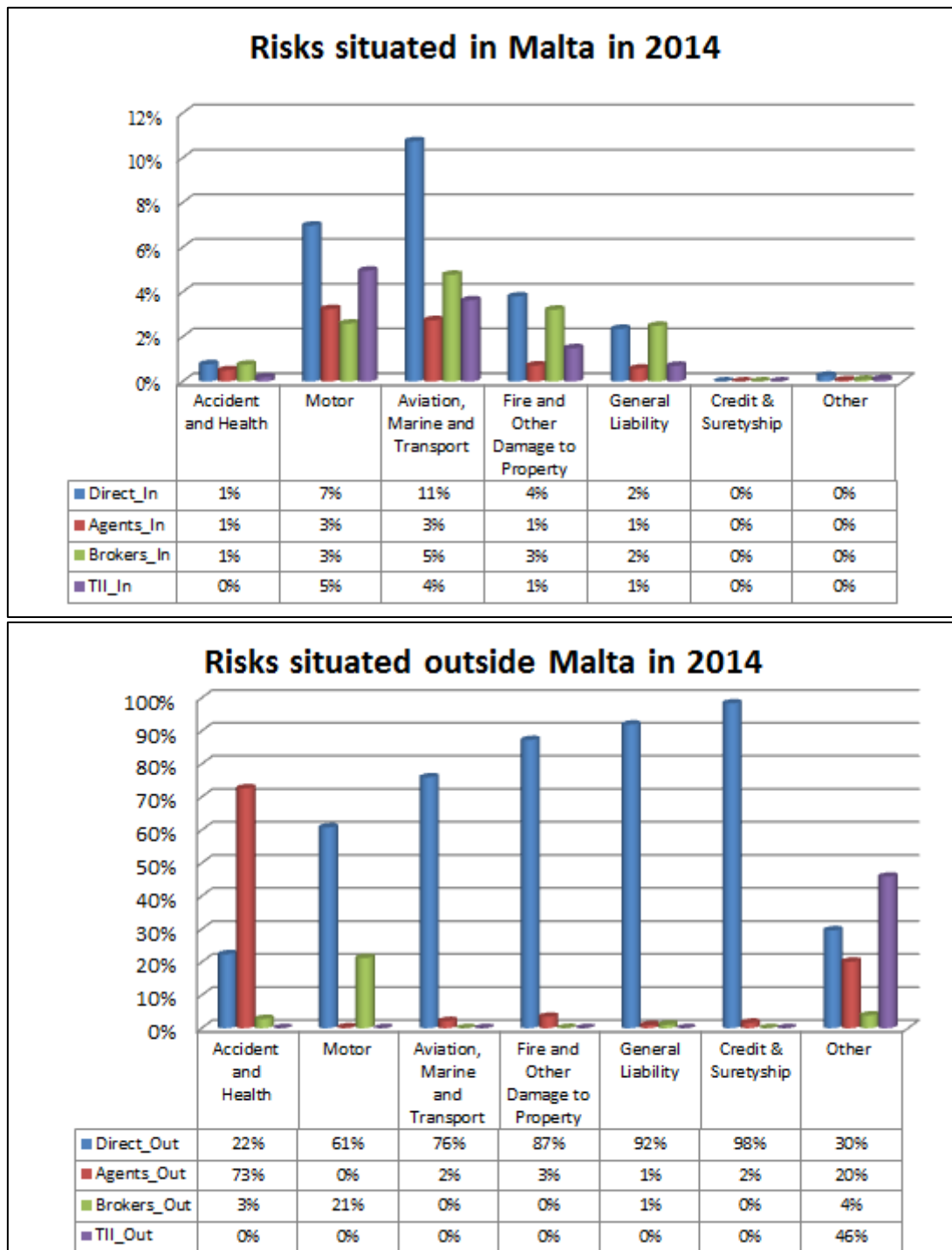
In 2014, the general business sector for risks situated in Malta and outside Malta continues to be mainly directly generated. The business directly sourced by the undertakings accounted for 40.0% (€46m) of the business for risks situated in Malta and 54.9% (€863m) of the business for risks situated outside Malta.

Figure 4.2.1 Source of business by distribution channel and by risks situated in and outside Malta



The charts presented in Figure 4.2.2 below show the source of business for risks in and outside Malta by source of business and business class:

Figure 4.2.2 Risks situated in and out of Malta in 2014 split by source of business and by business class



Note: For each class of business, the totals sum to 100% for both risks situated in and out of Malta

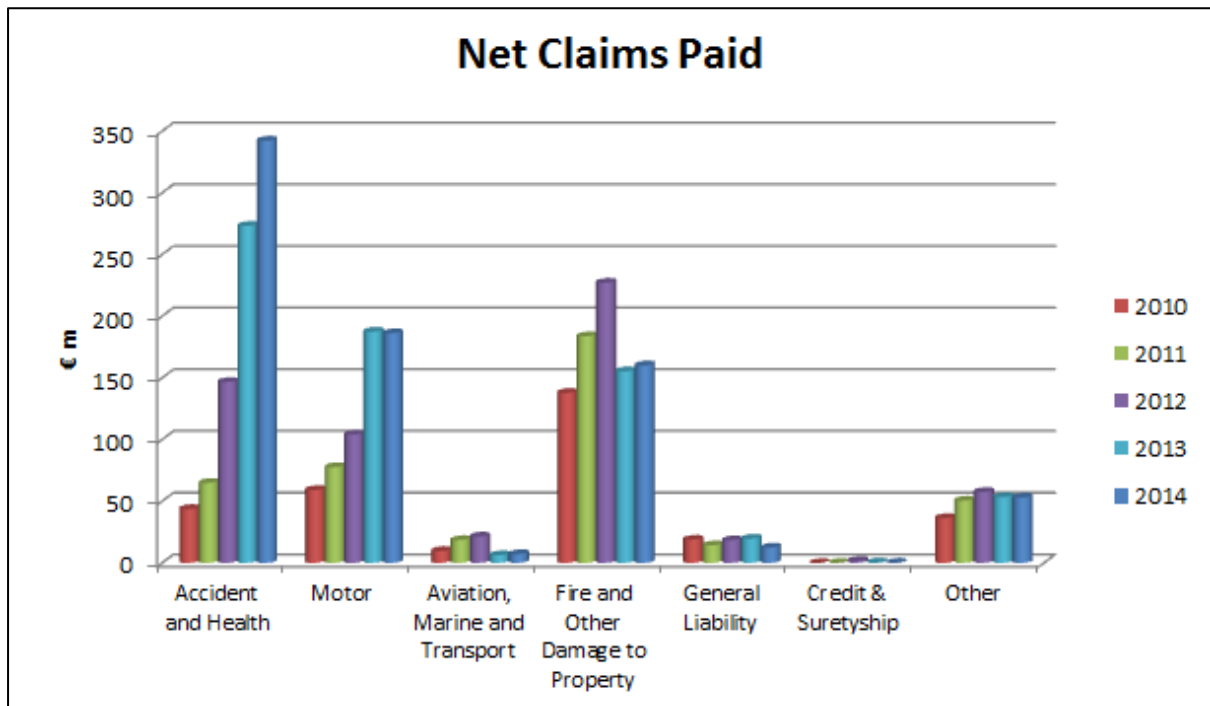
4.3. Claims

4.3.1. Net Claims Paid

The net claims paid have increased by 9% (€66m) in 2014 from €696m in 2013 to €762m in 2014, when compared to 21% (€119m) in 2013.

The most significant increase in percentage terms and in Euro amounts was observed in the *accident and health* business class of 25% and €69m respectively.

Figure 4.3.1.1 Net claims paid for all undertakings from 2010 to 2014



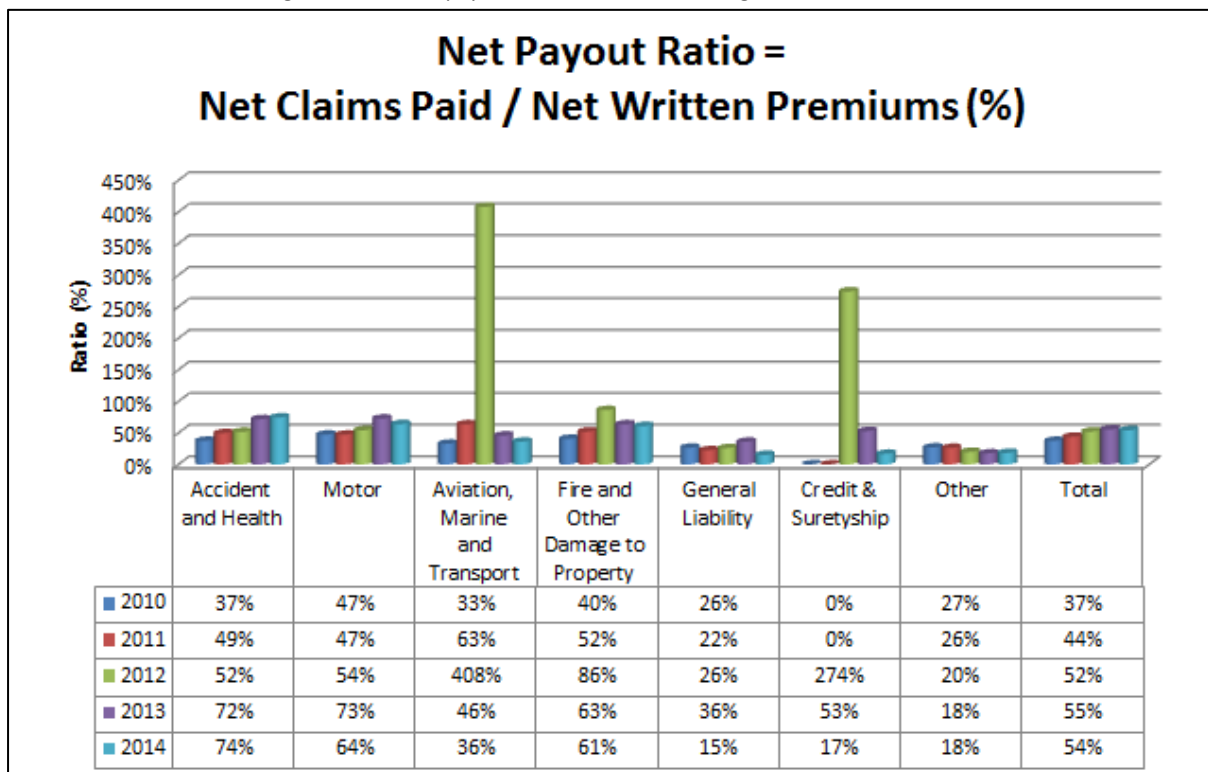
4.3.2. Net Payout Ratio

The net payout ratio has slightly decreased from 55% in 2013 to 54% in 2014. This is calculated as the ratio of the net claims paid over the net written premiums.

The trend over the past 5 years shows that the net payout ratio is volatile for the different classes of business. The ratio has decreased for all business classes in 2014 except for the *accident and health* and *other* business classes due to the decrease in claims paid in 2014 for these classes.

In 2014, the largest decrease of 36% was observed in the *credit and suretyship* business class.

Figure 4.3.2.1 Net payout ratio for all undertakings from 2010 to 2014

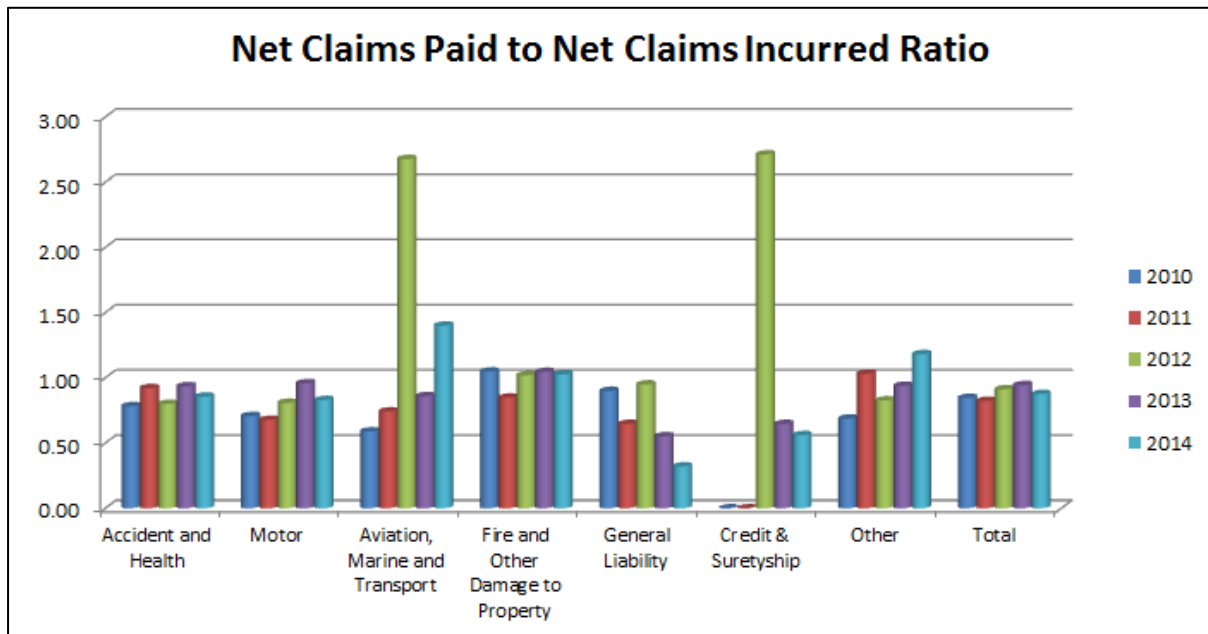


4.3.3. Ratio of Net Claims Paid over Net Claims Incurred

The chart below provides the comparison of the net claims paid over net claims incurred. The claims figures presented exclude claims management costs.

From the chart below, we observed that the ratio has increased for the *aviation, marine and transport* and *other* business classes in 2014 due to the decrease in claims incurred in 2014.

Figure 4.3.3.1 Net claims paid over net claims incurred for all undertakings from 2010 to 2014

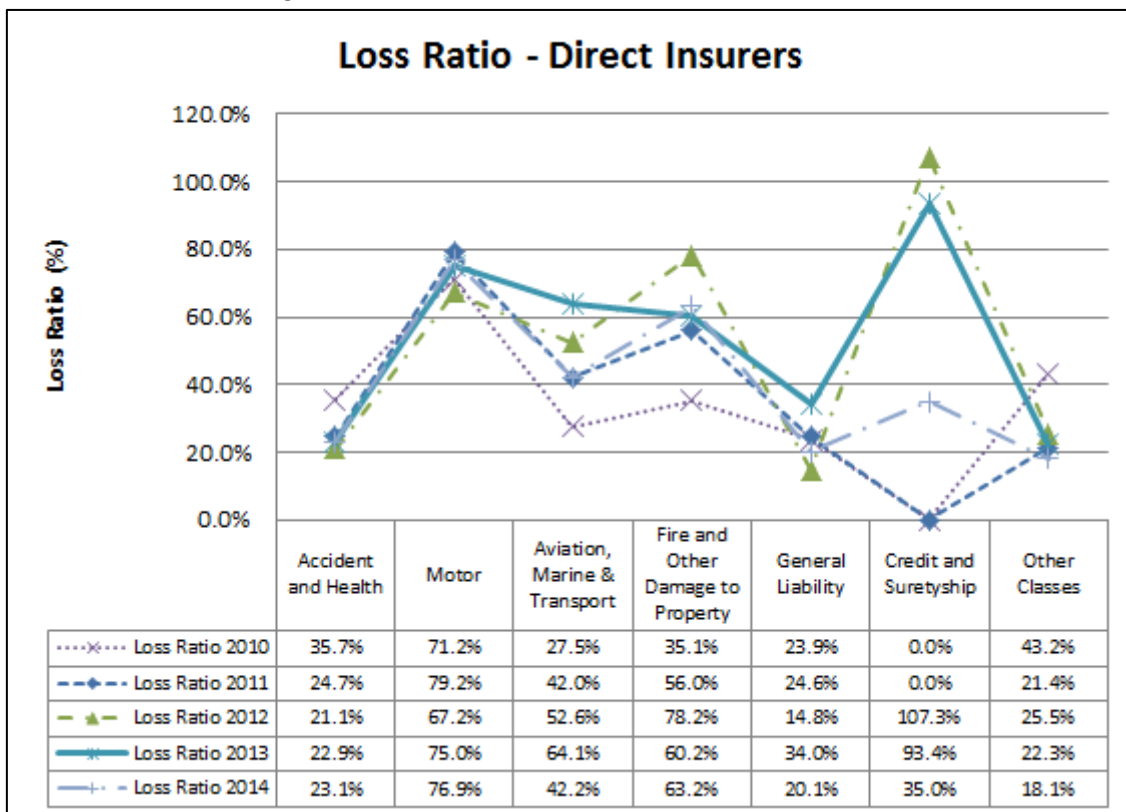


4.4. Key Financial indicators for General Business

4.4.1. Loss ratio

The loss ratios presented here are the net loss ratios. This is calculated as the net claims incurred over net earned premiums, where the claims incurred is the sum of the claims paid in the financial year, and the change in the claims reserves over the financial year. Note that the loss ratios presented here are the accounting year loss ratios and are not the ultimate loss ratios calculated by underwriting year or accident year. The loss ratios for direct insurers and pure reinsurers are presented in the charts below:

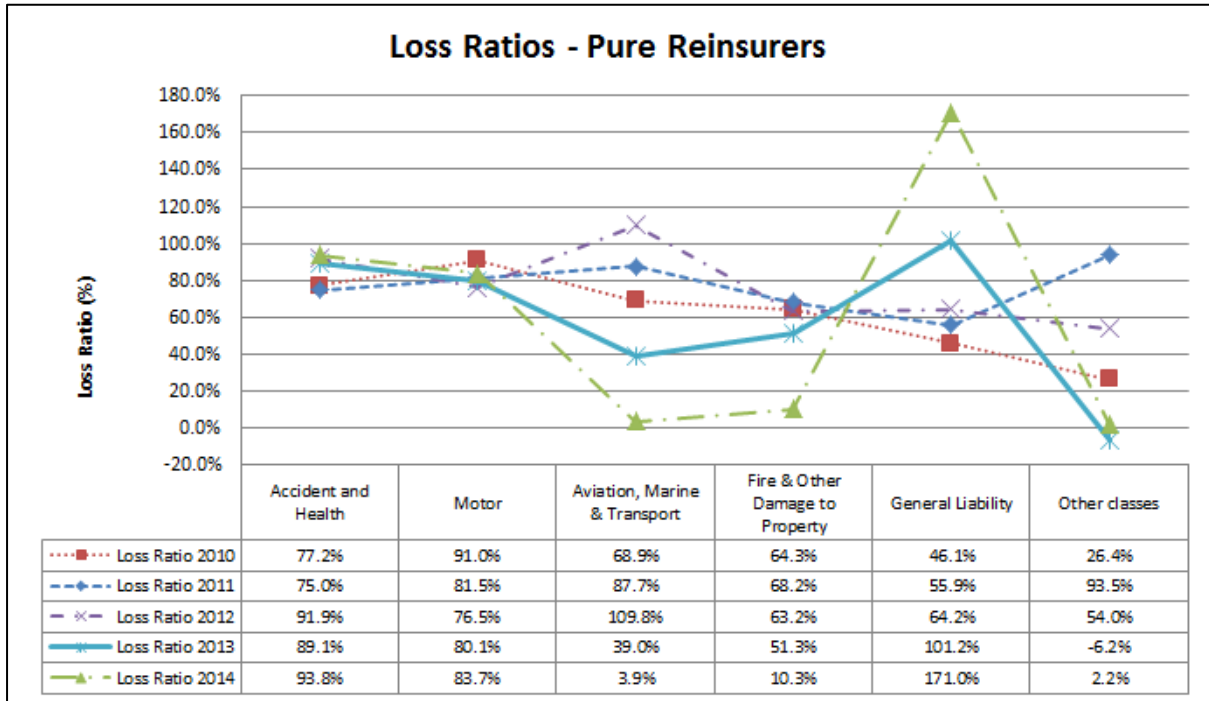
Figure 4.4.1.1 Loss ratios for direct insurers from 2010 to 2014



The loss ratios for the direct insurers have *deteriorated* between 2013 and 2014, in the *accident and health, motor, and the fire and other damage to property* business classes.

Improvements in the loss ratios were observed for the *aviation, marine and transport, general liability, credit and suretyship* and the *other* business classes of 21.9%, 13.9%, 58.4% and 4.2% respectively.

Figure 4.4.1.2 Loss ratios for pure reinsurers from 2010 to 2014

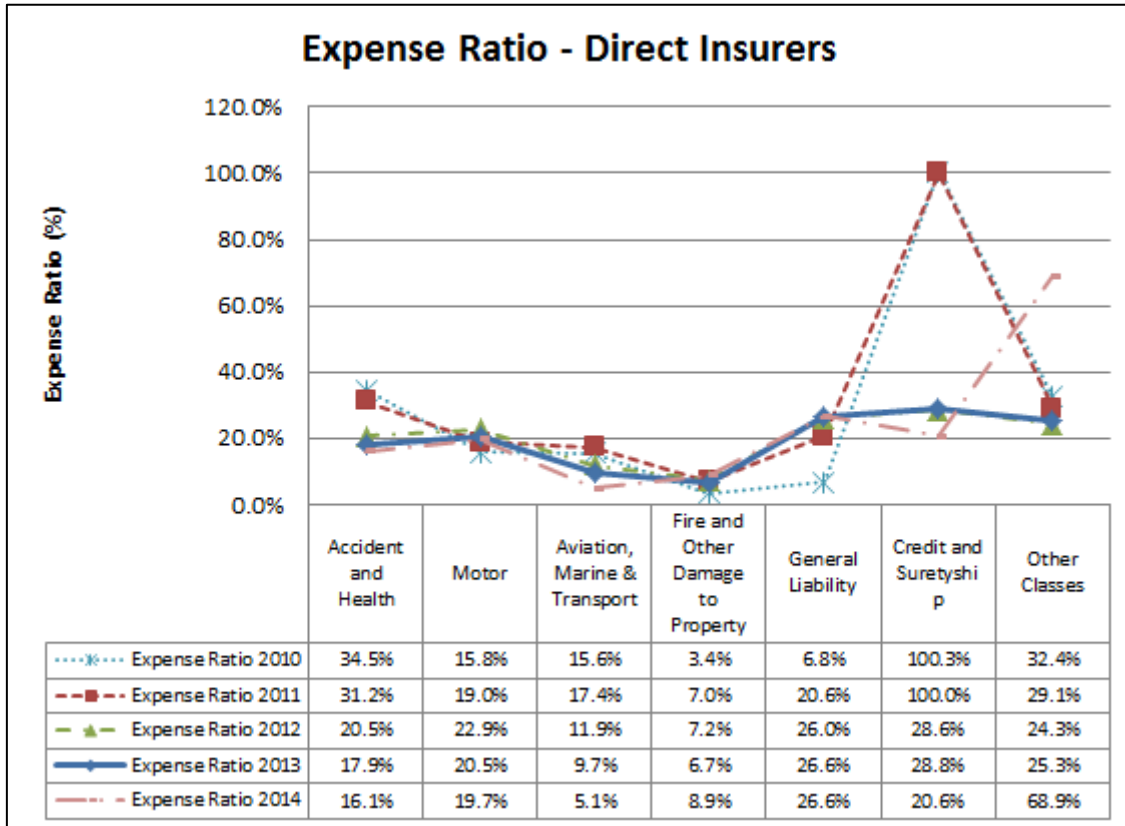


The loss ratios for the pure reinsurers have *deteriorated* between 2013 and 2014 for the *accident and health, motor, general liability* and the *other* business classes. Improvements were observed in the *aviation, marine and transport* and the *fire and other damage to property* business classes of 35.2% and 40.9% respectively.

4.4.2. Expense ratio

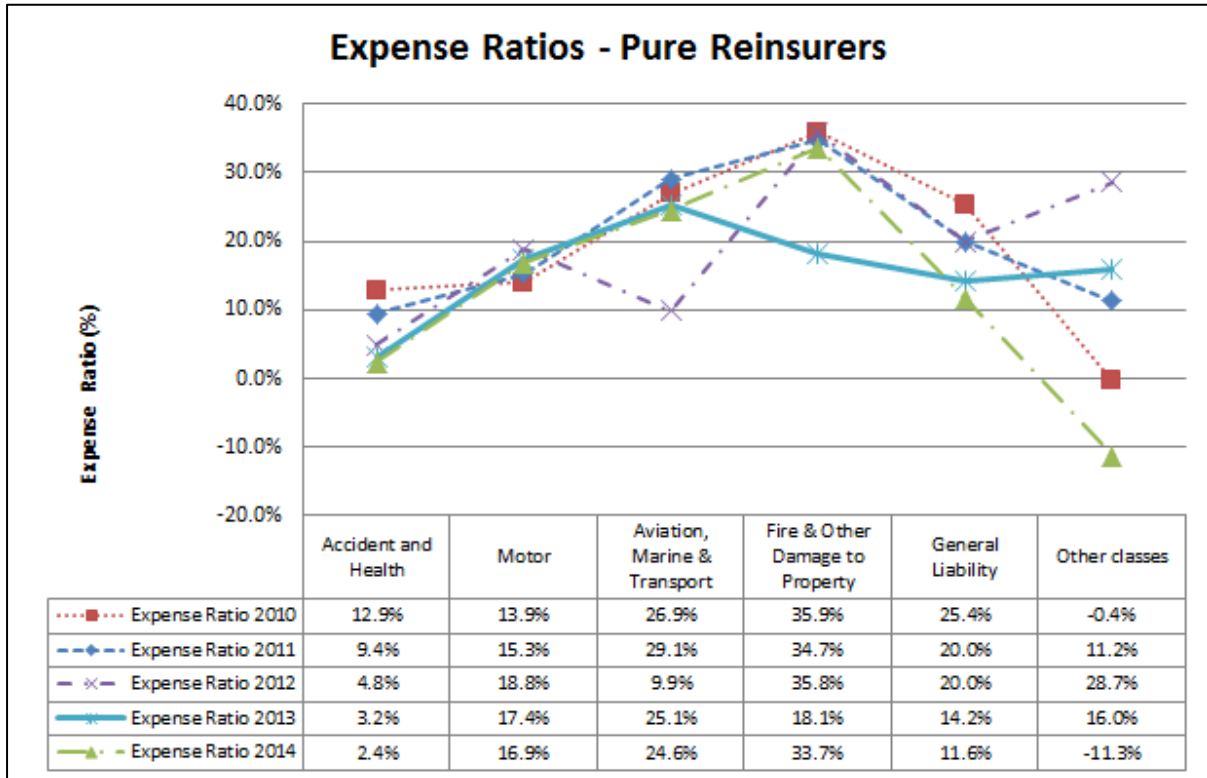
The expense ratio is calculated as the net operating expenses over the net earned premiums. The expense ratios for direct insurers and pure reinsurers are presented in the charts below:

Figure 4.4.2.1 Expense ratios for direct insurers from 2010 to 2014



The expense ratios for direct insurers have decreased between 2013 and 2014 for all business classes except for the *fire and other damage to property*, and the *other* business classes, the latter having *increased* significantly.

Figure 4.4.2.2 Expense ratios for pure reinsurers from 2010 to 2014

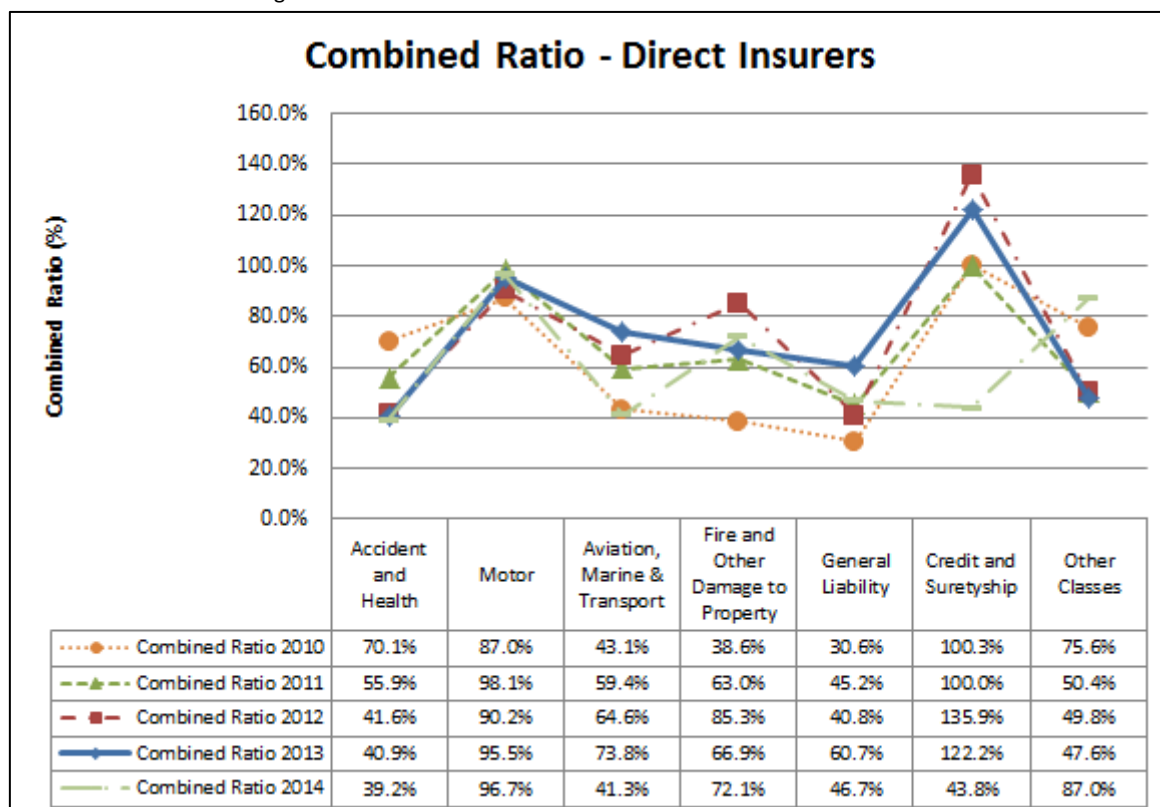


The expense ratio for pure reinsurers has *increased* between 2013 and 2014 for the fire and other damage to property business class. For the remaining classes of insurance, the *accident and health*, *motor*, *aviation, marine and transport*, *general liability* and the *other* business classes, the ratios have decreased by 0.8%, 0.5%, 0.6%, 2.5% and 27.3% respectively.

4.4.3. Combined ratio

The combined ratio is calculated as the sum of net claims incurred and the net operating expenses over the net earned premiums. The combined ratios for direct insurers and pure reinsurers are presented in the charts below:

Figure 4.4.3.1 Combined ratios for direct insurers from 2010 to 2014

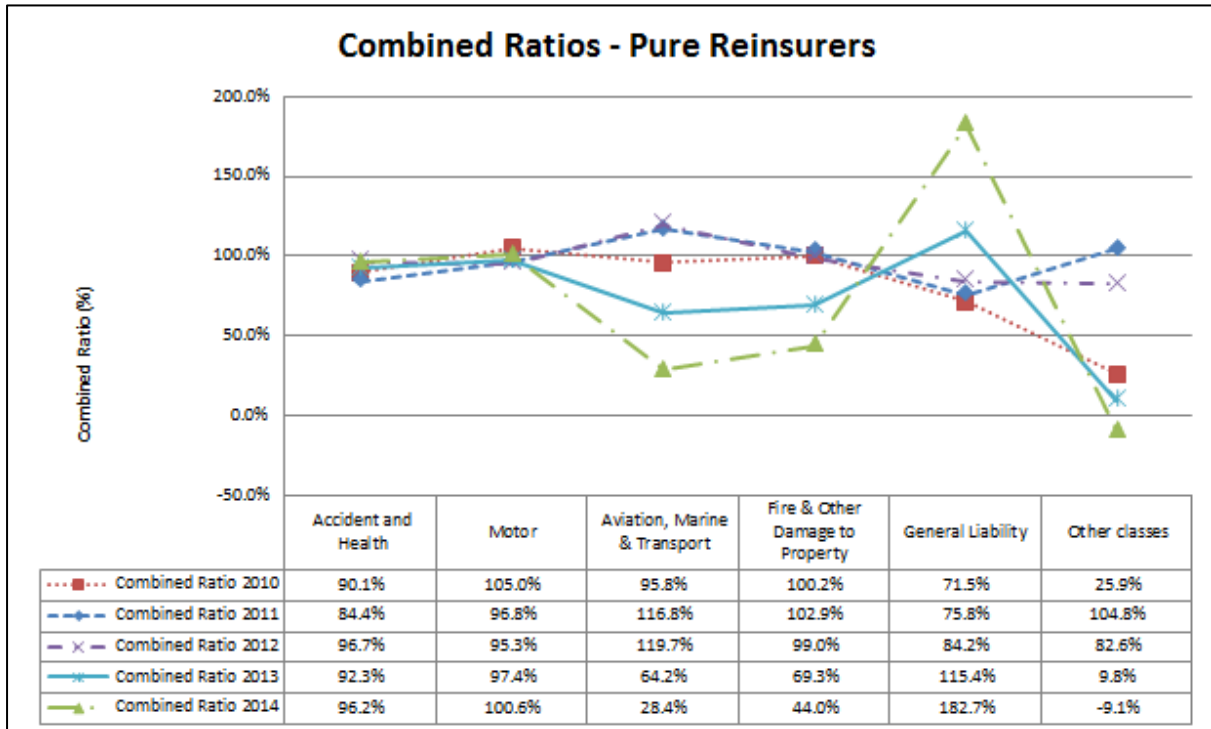


The combined ratios of the direct insurers have decreased for most business classes between 2013 and 2014 except for the *motor*, *fire and other damage to property* and the *other* business classes, which have *increased* by 1.2%, 5.2%, and 39.4% respectively.

The changes in the combined ratios between 2013 and 2014 by business class for the direct insurers can be explained by the movements in the loss ratios and expense ratios as summarised in the table below:

Class of Business	Combined Ratio	Loss Ratio	Expense Ratio
Accident and Health	-1.7%	0.2%	-1.8%
Motor	1.2%	1.9%	-0.8%
Aviation, Marine and Transport	-26.5%	-21.9%	-4.6%
Fire and Other Damage to Property	5.2%	3.0%	2.2%
General Liability	-14.0%	-13.9%	0.0%
Credit & Suretyship	-66.6%	-58.4%	-8.2%
Other	39.4%	-4.2%	43.6%

Figure 4.4.3.2 Combined ratios for pure reinsurers from 2010 to 2014



The combined ratios of the pure reinsurers have also *increased* between 2013 and 2014 for all business classes except for the *aviation, marine and transport, fire and other damage to property* and the *other* business classes, which have decreased by 35.7%, 25.3%, and 18.9% respectively.

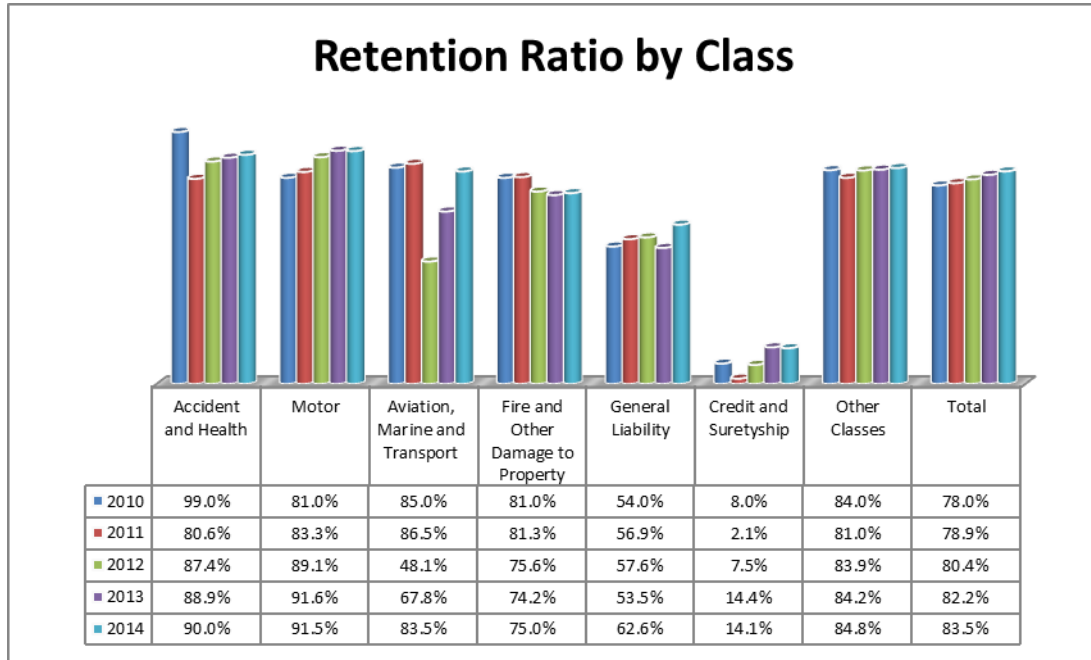
The changes in the combined ratios between 2013 and 2014 by business class for the pure reinsurers can be explained by the movements in the loss ratios and expense ratios as summarised in the table below:

Class of Business	Combined Ratio	Loss Ratio	Expense Ratio
Accident and Health	3.8%	4.7%	-0.8%
Motor	3.1%	3.6%	-0.5%
Aviation, Marine and Transport	-35.7%	-35.2%	-0.6%
Fire and Other Damage to Property	-25.3%	-40.9%	15.6%
General Liability	67.3%	69.8%	-2.5%
Other	-18.9%	8.4%	-27.3%

4.4.4. Retention ratio

The insurance retention ratio gives an indication of the amount of risk that is retained by an insurer and the amount ceded to the reinsurers. For the general insurance business, the retention ratio is calculated using the net written premiums over the gross written premiums.

Figure 4.4.4.1 Retention ratio by Class of insurance from 2010 to 2014 by written premium



As we can see in the graph above, the Total retention ratio is on a steady increase, which means that the insurers are choosing to retain more risks. Between 2013 and 2014, we observe increases for all classes except the *motor* class and the *credit and suretyship* class. The class with the largest percentage increase is the *aviation, marine and transport* class, with a 15.7% increase.

5. Long-Term Business Overview

5.1. Gross Written Premiums

The gross written premiums in respect of the long-term business have increased by 9% (€92m) in 2014 from €1,049m in 2013 to €1,141m in 2014, compared to an increase of 4% (€40m) in 2013.

The bulk of the long-term business is written under the life and annuity business class. This makes up 93% of the total gross written premiums in 2014 (90% in 2013).

5.1.1. Comparison of Gross Written Premiums by class of insurance

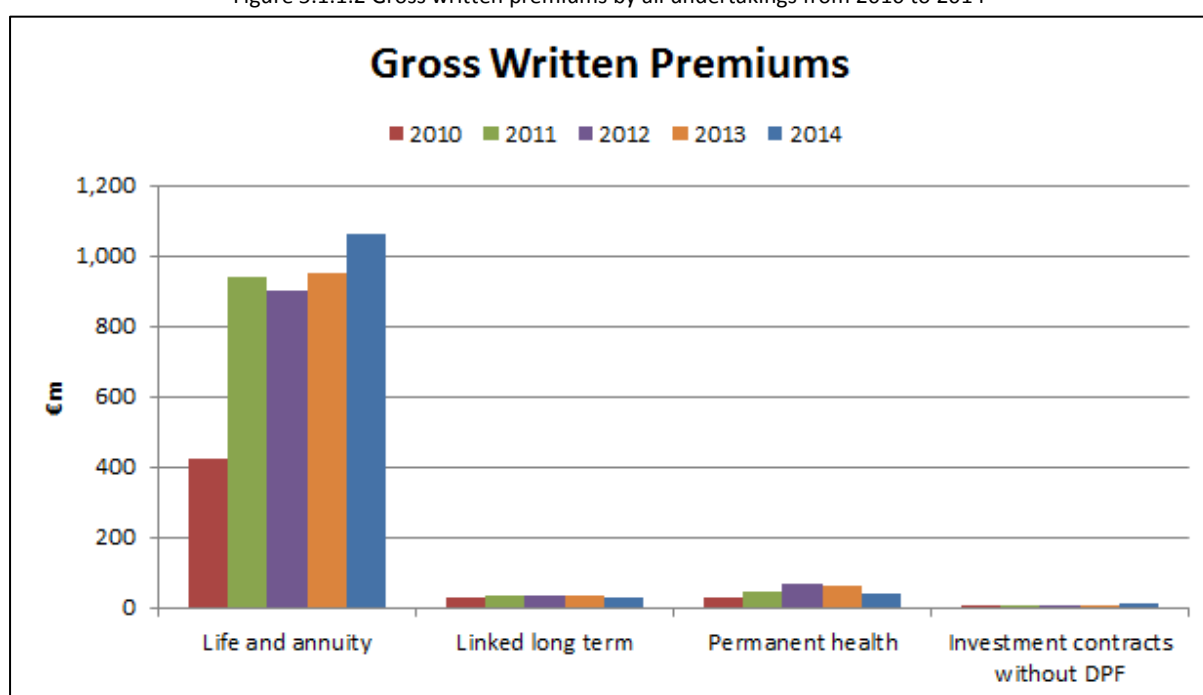
The table shows how the gross written premiums have developed between 2010 and 2014 by class of business:

Table 5.1.1.1 Gross written premiums by all undertakings from 2010 to 2014

€ m	2010	2011	2012	2013	2014	% Change
Life and annuity	422	941	903	949	1,062	12%
Linked long term	27	33	35	34	30	-11%
Permanent health	28	45	69	60	38	-37%
Investment contracts <i>without</i> DPF	7	4	2	5	10	91%
Total	485	1,022	1,009	1,049	1,141	9%

The chart below provides a comparison of the gross written premiums from 2010 to 2014:

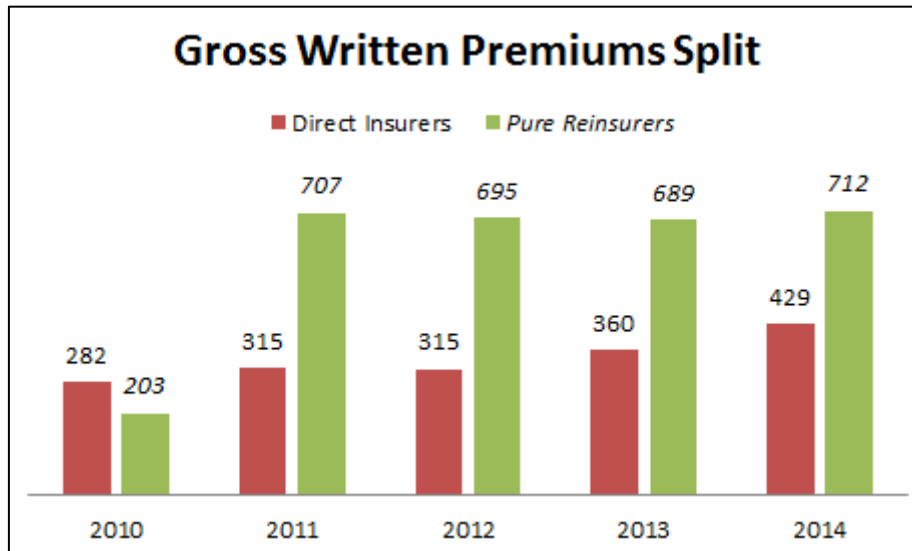
Figure 5.1.1.2 Gross written premiums by all undertakings from 2010 to 2014



5.1.2. Comparison of Gross Written Premiums between Direct Insurers and Pure Reinsurers

The volume of gross written premiums by direct insurers and pure reinsurers between 2010 and 2014 is shown in the chart below:

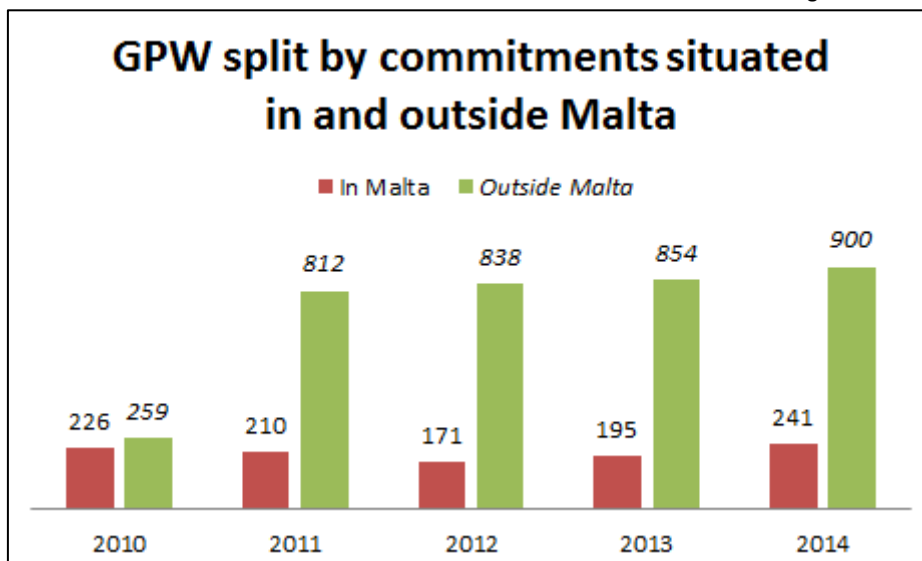
Figure 5.1.2.1 Gross written premiums split between direct insurers and pure reinsurers between 2010 and 2014



5.1.3. Comparison of Gross Written Premiums between commitments situated in Malta and outside Malta

The chart below shows the breakdown of commitments situated in and outside Malta for all undertakings:

Figure 5.1.3.1 Breakdown of commitments situated in and outside Malta for all undertakings from 2010 to 2014



In respect of commitments situated in Malta in 2013 and 2014, the gross written premiums for direct insurance business have increased by 24.0%, whilst an 18.7% decrease was observed for reinsurance business.

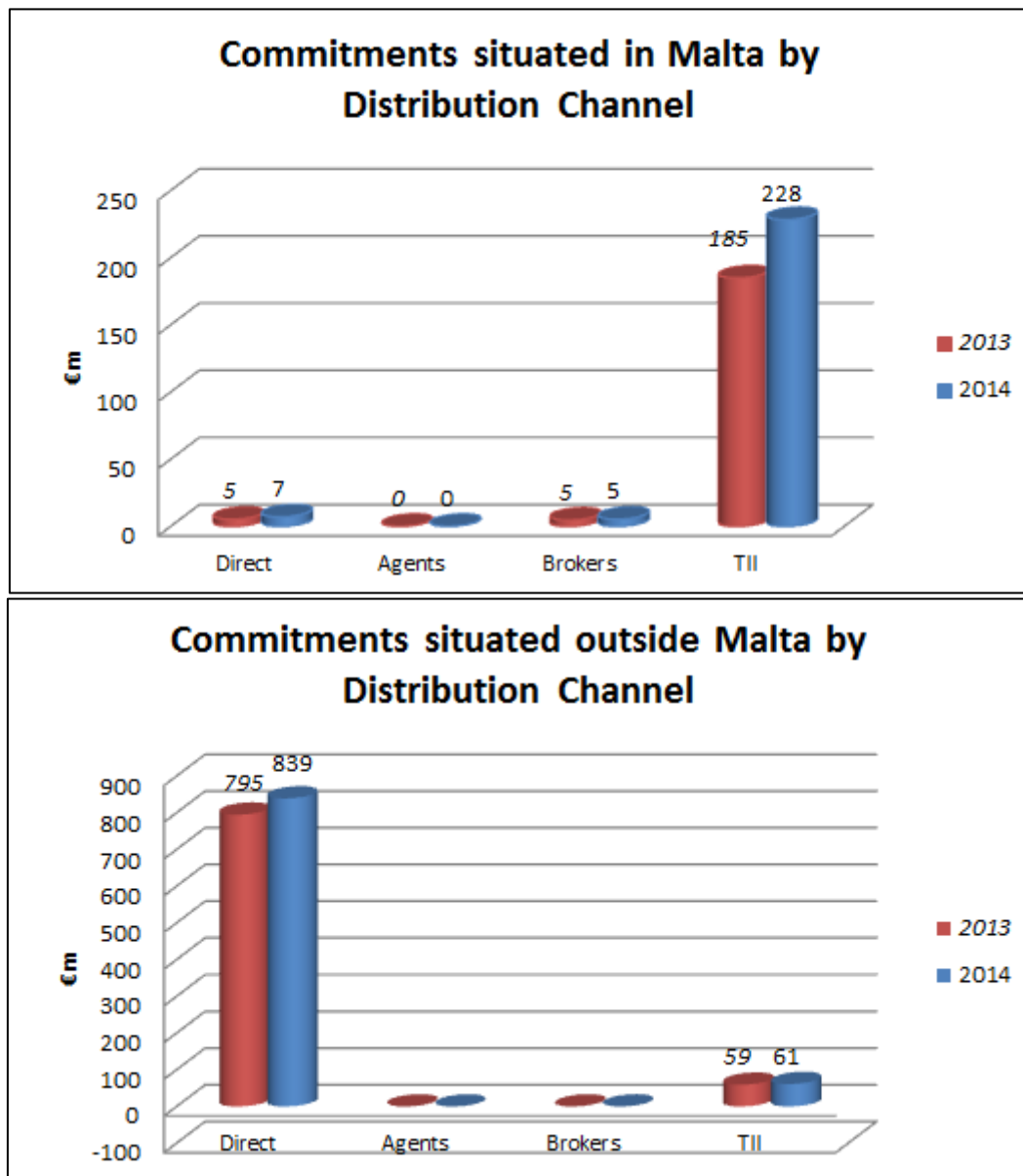
In respect of commitments situated outside Malta in 2013 and 2014, there has been a 12.6% increase in the gross written premiums for direct insurance business and a 3.7% increase for reinsurance business.

These changes were observed in the life and annuity business class, which forms the bulk of the long-term business written.

5.2. Source of Business

New business written in the long-term business sector for commitments situated in Malta continues to be mainly generated by tied insurance intermediaries (TII) in 2014. The business generated by TIIs account for 94.8% (€228m) [94.9% (€185m) in 2013] of the business with 2.9% (€7m) [2.7% (€5m) in 2013] of the business generated directly. A very insignificant volume of new business was sourced directly and through agents in 2014.

Figure 5.2.1 Source of business by distribution channel



For the commitments situated outside Malta, 93.2% (€839m) [93.1% (€795m) in 2013] of the business is generated directly and the remaining 6.8% (€61m) [6.9% (€59m) in 2013] is generated by TIIs.

5.3. Technical Provisions

The table below provides the breakdown of the technical provisions from 2010 to 2014.

Table 5.3.1 Technical provisions from 2010 to 2014 in total

Year	Gross (€m)	Reinsurance Ceded (€m)	Net of Reinsurance (€m)
2010	1,733	31	1,703
2011	5,265	48	5,218
2012	5,197	69	5,128
2013	6,067	81	5,986
2014	7,135	137	6,998

The charts below provide a split of the gross and net technical provisions from 2010 to 2014:

Figure 5.3.2 Split of gross and net technical provisions in total from 2010 to 2014

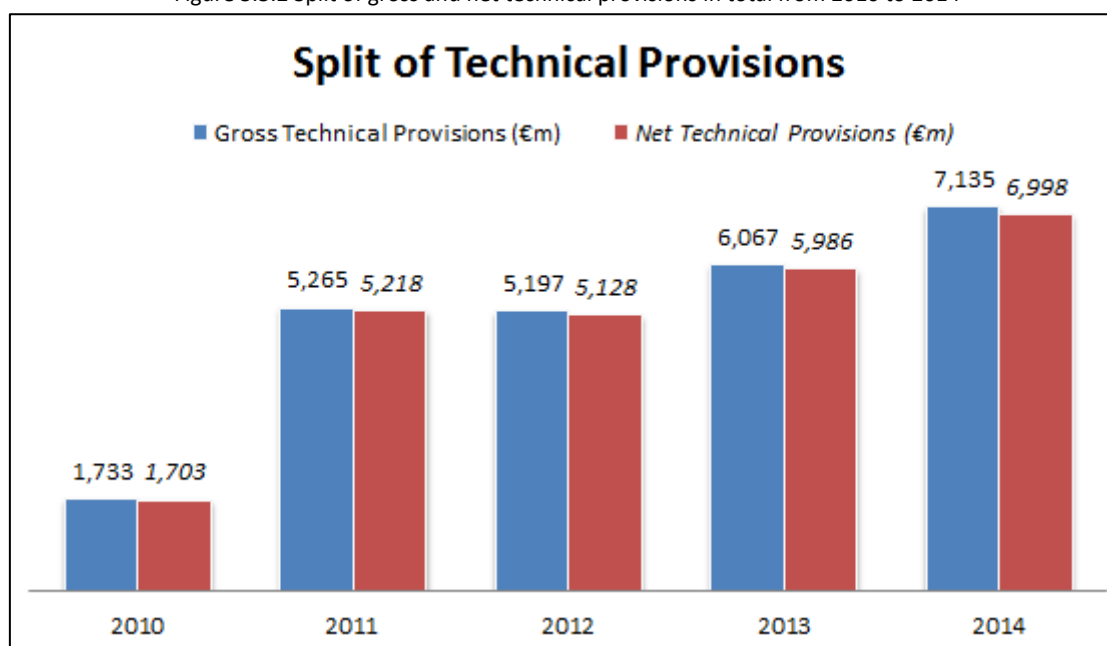
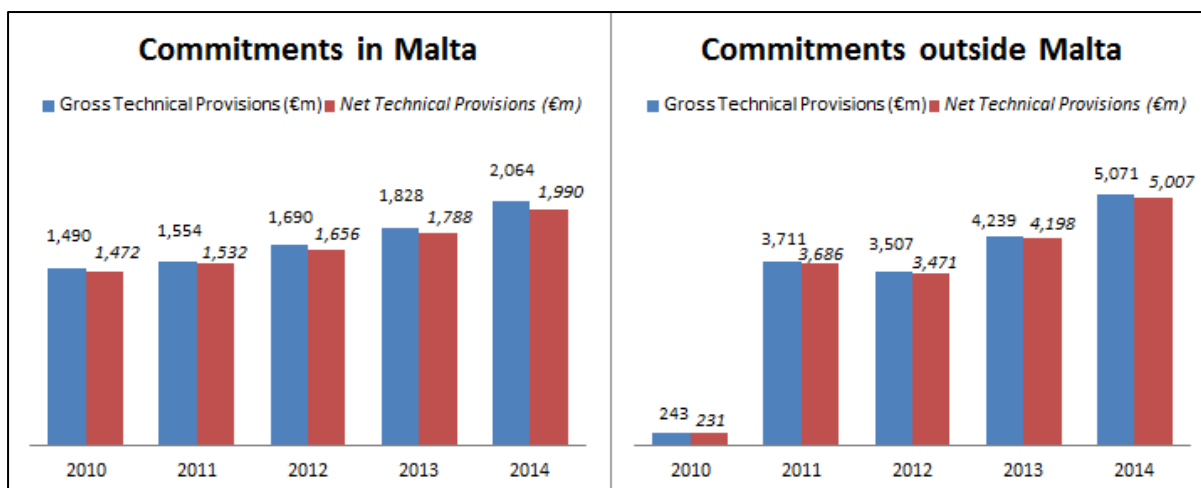


Figure 5.3.3 Split of gross and net technical provisions from 2010 to 2014 for commitments situated in and outside Malta



When analysing the gross and net technical provisions for commitments in Malta, it is important to understand and differentiate between the products for which reinsurance can be obtained and the products for which reinsurance is not generally obtained.

More than 95% (by gross technical provisions) of the life insurance products written in Malta are investment and savings products, where the investment risks are borne by the policyholders, these products are not reinsured. The products that are generally reinsured are the non-profit products where the most significant risk is mortality risk. These make up less than 5% of the products written.

The main life insurance and reinsurance products covering the commitments outside Malta are non-profit products where the mortality is the most significant risk. Some of the life insurance undertakings writing commitments outside Malta have reinsurance programmes in place for these products. The bulk of the commitments outside Malta is reinsurance business. However, a small proportion of reinsurance is ceded in the form of retrocession cover obtained by selected reinsurance undertakings.

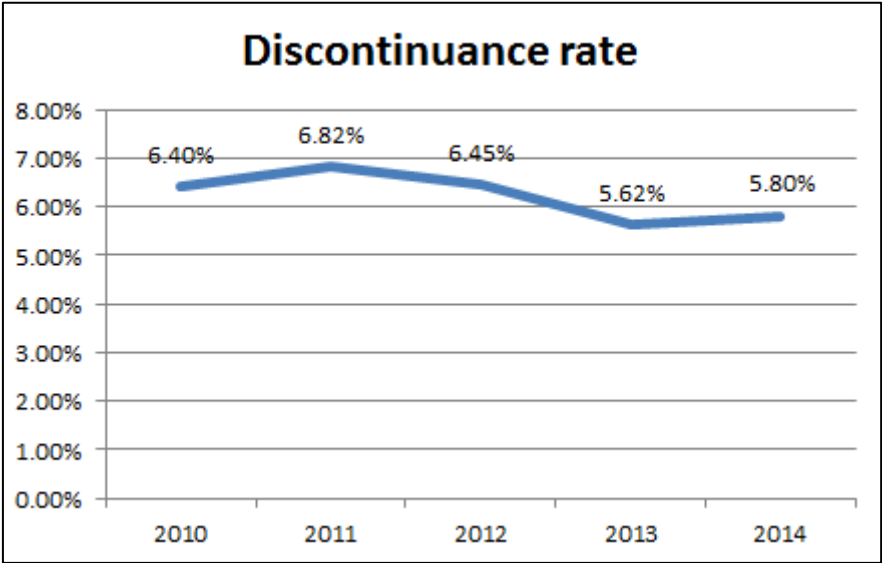
5.4. Analysis of Decrements

This section provides an analysis of the trends in the discontinuance rates, mortality rates and maturity rates for the commitments in Malta only. Please note that due to the limited data available, the analysis below is not based on a detailed experience investigation as would be carried out by the respective long-term business undertakings. The rates below represent a very crude analysis of the decrements experienced for the commitments in Malta. The trend observed is different between trend by number of policies and by benefits amounts paid in all cases due to the weightings of the benefits paid.

5.4.1. Discontinuance Rates

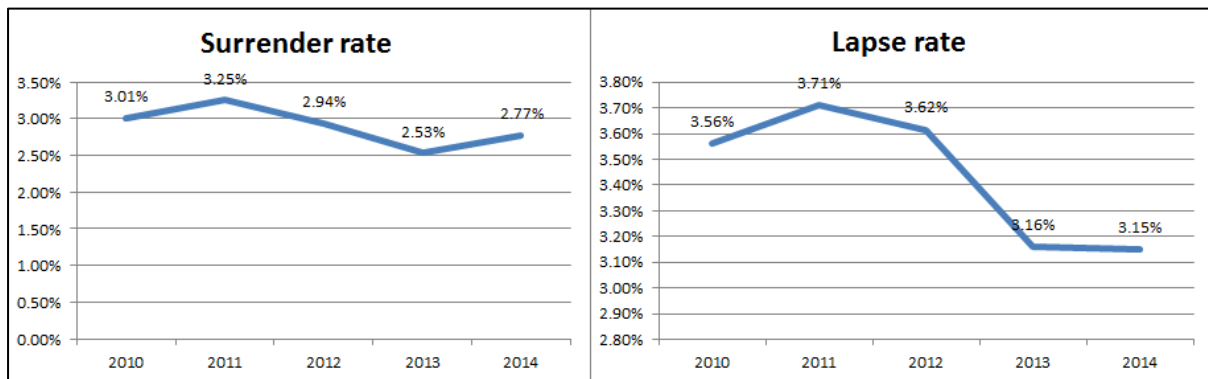
The discontinuance rate experienced by long-term business undertakings writing business in Malta has increased between 2013 and 2014 by number of policies. The trend of discontinuance rates by number of policies between 2010 and 2014 is shown below:

Figure 5.4.1.1 Discontinuance rates from 2010 to 2014 by number of policies



The following charts provide the breakdown of the discontinuance rates by surrender and lapse:

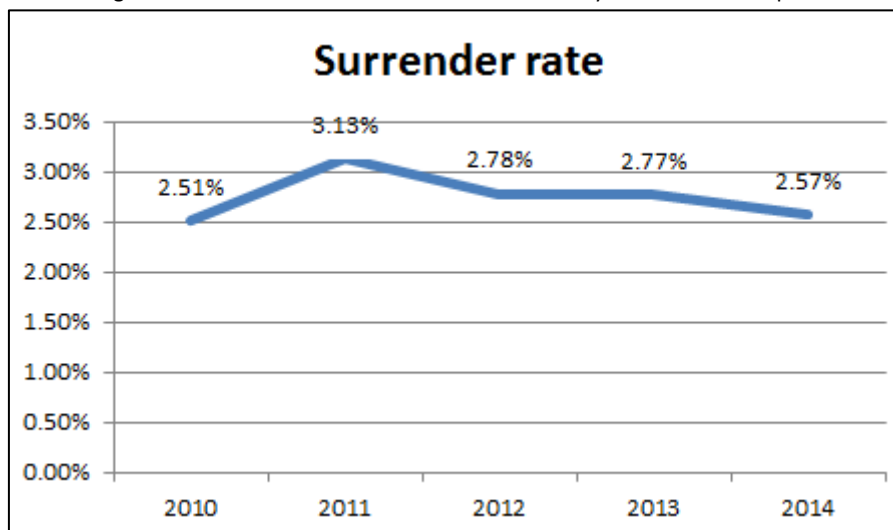
Figure 5.4.1.2 Surrender rates and lapse rates from 2010 to 2014 by number of policies



The change in the number of surrenders is driven by the with-profits endowment contracts, whilst the change in the number of lapses is driven by the non-profit contracts.

The following chart shows the trend of the surrender rates by amount of benefits paid:

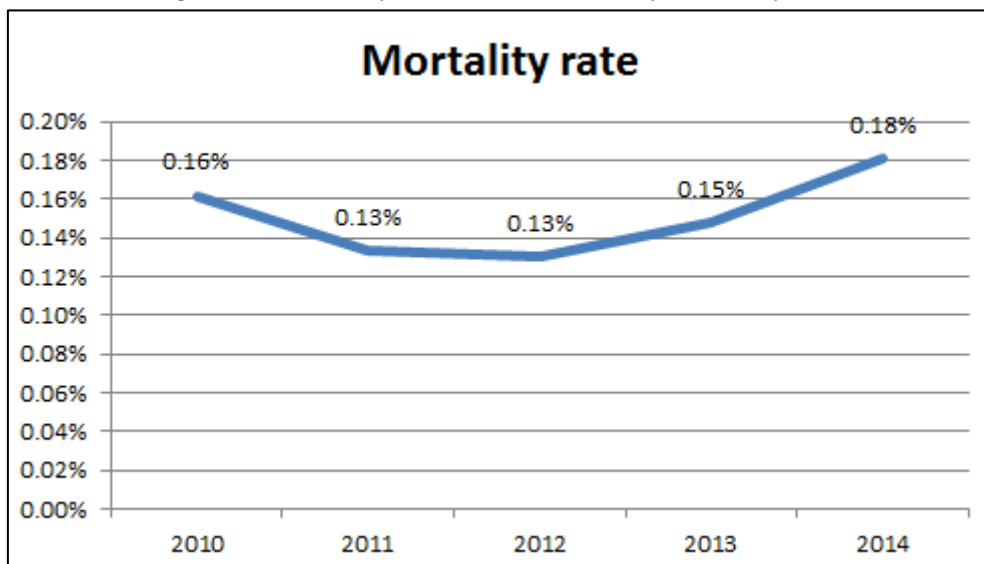
Figure 5.4.1.3 Surrender rates from 2010 to 2014 by benefit amounts paid



5.4.2. Mortality Rates

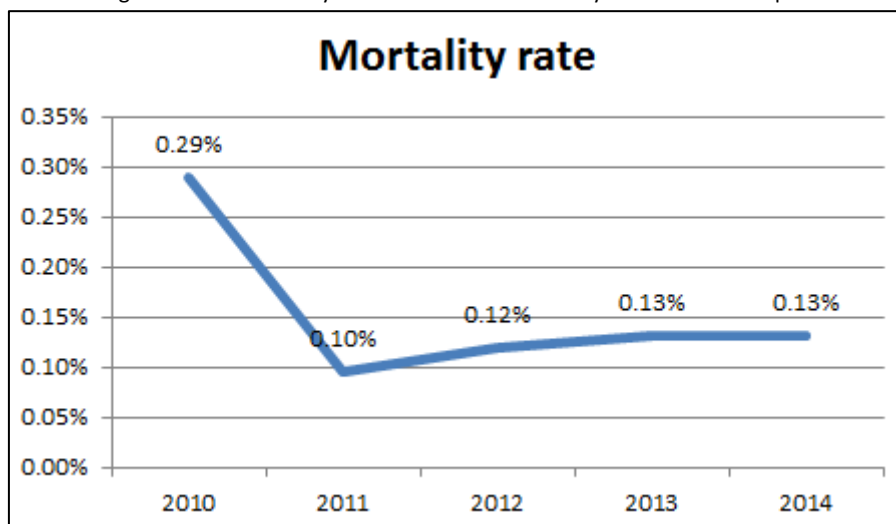
The mortality rate experienced by long-term business undertakings writing business in Malta has increased between 2013 and 2014 by number of policies but remained the same by benefit amounts paid. The trend of mortality rates by number of policies between 2010 and 2014 is shown below:

Figure 5.4.2.1 Mortality rates from 2010 to 2014 by number of policies



The trend of mortality rates by the amount of benefits paid between 2010 and 2014 is shown below:

Figure 5.4.2.2 Mortality rates from 2010 to 2014 by benefit amounts paid

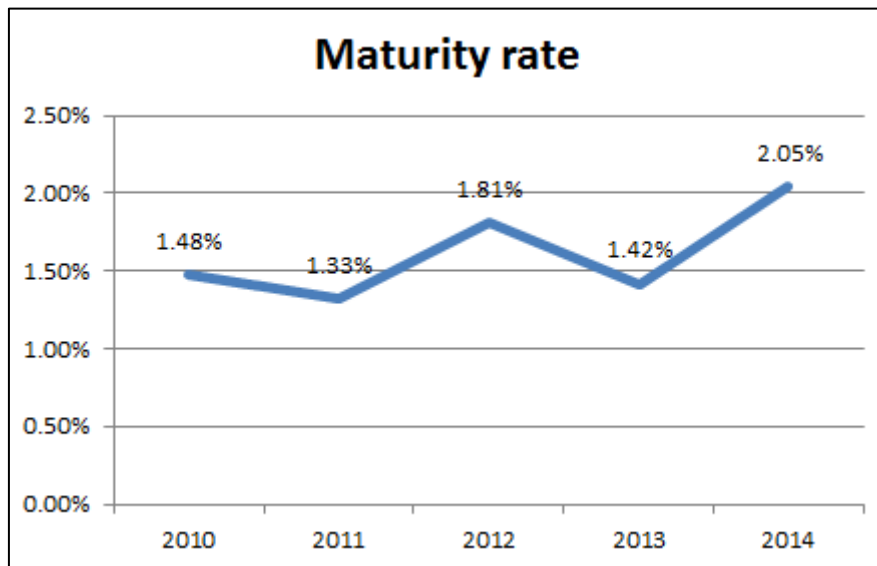


5.4.3. Maturity Rates

The maturity rate experienced by long-term business undertakings writing business in Malta has increased from 2013 to 2014 by number of policies and by benefit amounts paid. The maturities mainly arise from the experience of the with-profits endowment contracts.

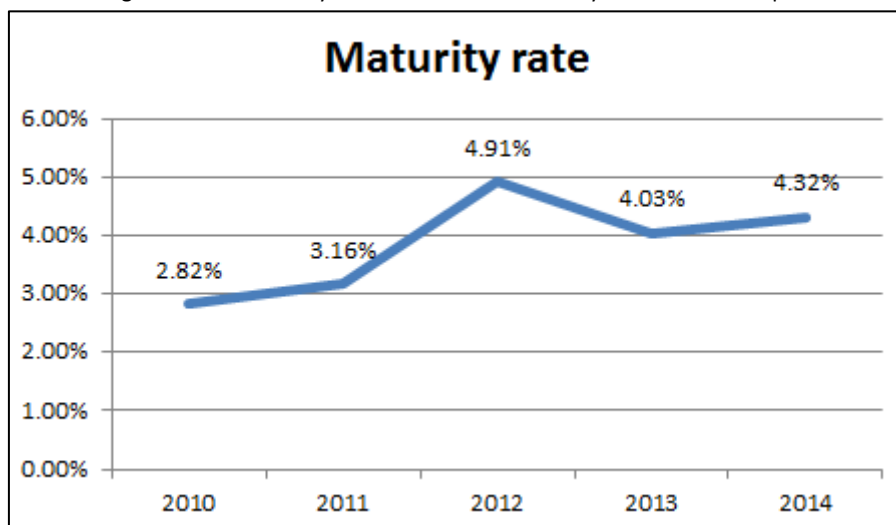
The trend of maturity rates between 2010 and 2014 is shown below:

Figure 5.4.3.1 Maturity rates from 2010 to 2014 by number of policies



The trend of maturity rates by the amount of benefits paid between 2010 and 2014 is shown below:

Figure 5.4.3.2 Maturity rates from 2010 to 2014 by benefit amounts paid



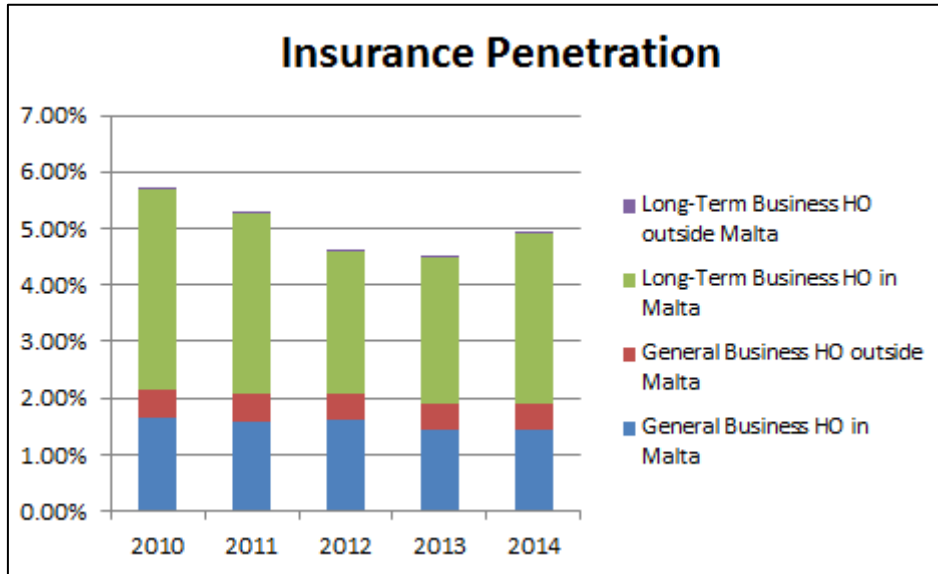
6. Insurance Penetration of the Domestic Insurance Market

The gross domestic product in real terms for 2014 was €7.9bn (€7.3bn in 2013), an increase of 5.4% from 2013.

The insurance penetration rate, defined as the total gross written premiums with respect to Maltese commitments in Malta as a share of the gross domestic product has increased to 5.0% in 2014.

For the general business, the penetration rate remained the same at 2.0% in 2014. However, for the long-term business, the rate increased by 0.4%, from 2.6% in 2013 to 3.1% in 2014.

Figure 6.1 Insurance penetration for risks and commitments situated in Malta from 2010 to 2014



Notes:

- (1) GDP at current market prices (sourced from National Statistics Office (NSO))
- (2) The long-term business includes investment contracts without discretionary participation features
- (3) The long-term business with HO outside Malta refers to non-EU/EEA insurers authorised under the Act and EU/EEA insurers servicing life business in the domestic sector through agents.
- (4) The general business with HO outside Malta refers to non-EU/EEA insurers authorised under the Act and EU/EEA insurers carrying out business in Malta under the right of establishment.
- (5) The GDP values for prior years have been updated to reflect the GDP trend position as at Q2 2015.

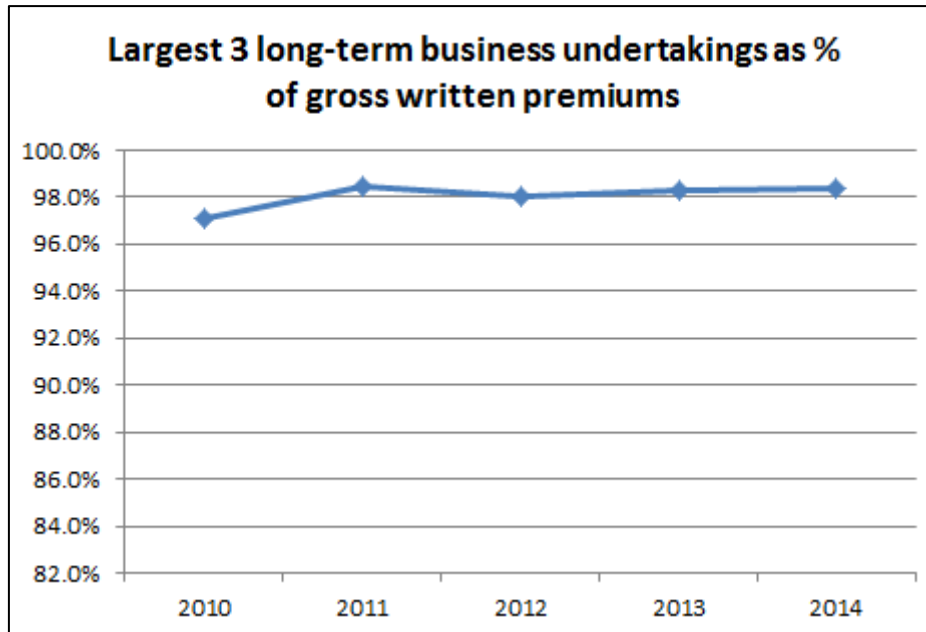
In 2014, we observe an increase in the penetration rate for undertakings with head office (HO) in Malta which is mainly due to the increase in the gross written premiums by the long-term business undertakings. The penetration rates for undertakings with HO outside Malta which writes long-term business continues to decrease year on year as these portfolios of business are in run-off.

7. Concentration of the Domestic Insurance Market

The domestic market remains highly concentrated, especially in the long-term business sector.

The three largest long-term business undertakings wrote 98.4% (98.3% in 2013) of the total long-term insurance gross written premiums for commitments in Malta.

Figure 7.1 Largest 3 long-term business undertakings



The largest three general business undertakings wrote 56.6% (53.4% in 2013) of the total general insurance gross written premiums for risks situated in Malta.

Figure 7.2 Largest 3 general business undertakings

