

# Insurance Statistical Review 2010

Malta Financial Services Authority  
November 2011

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## 1. General Overview

As at 31 December 2010 there were 50 insurance undertakings authorised by the Malta Financial Services Authority to carry out insurance business in and from Malta. The following table shows the number of undertakings split by nature of the business:

**Table 1.1: Nature of business of the insurance market**

<b>Nature of Business</b>	<b>2009</b>	<b>2010</b>
<b>Non-Life</b>	30	33
<b>Life</b>	8	8
<b>Composite</b>	3	2
<b>Reinsurers</b>	4	7
<b>Total</b>	<b>45</b>	<b>50</b>

Risks/commitments in Malta were written by 11 undertakings; 42 undertakings placed insurance business outside Malta.

### 1.1. Volume of Business

Total Gross Premiums Written (GPW) increased by 45% from €1.04bn in 2009 to €1.51bn in 2010. This marks the largest percentage growth in premiums written over a year since 2006. This was primarily due to the authorisation of new undertakings, though a small number of undertakings exhibited significant increases in premiums written over the previous year. GPW by non-life undertakings increased by 43% over 2009, which again marks the largest percentage growth in non-life premiums as observed over the last 5 years. GPW written by life undertakings increased by 48% over 2009, similar to the percentage growth in GPW observed from 2008 to 2009.

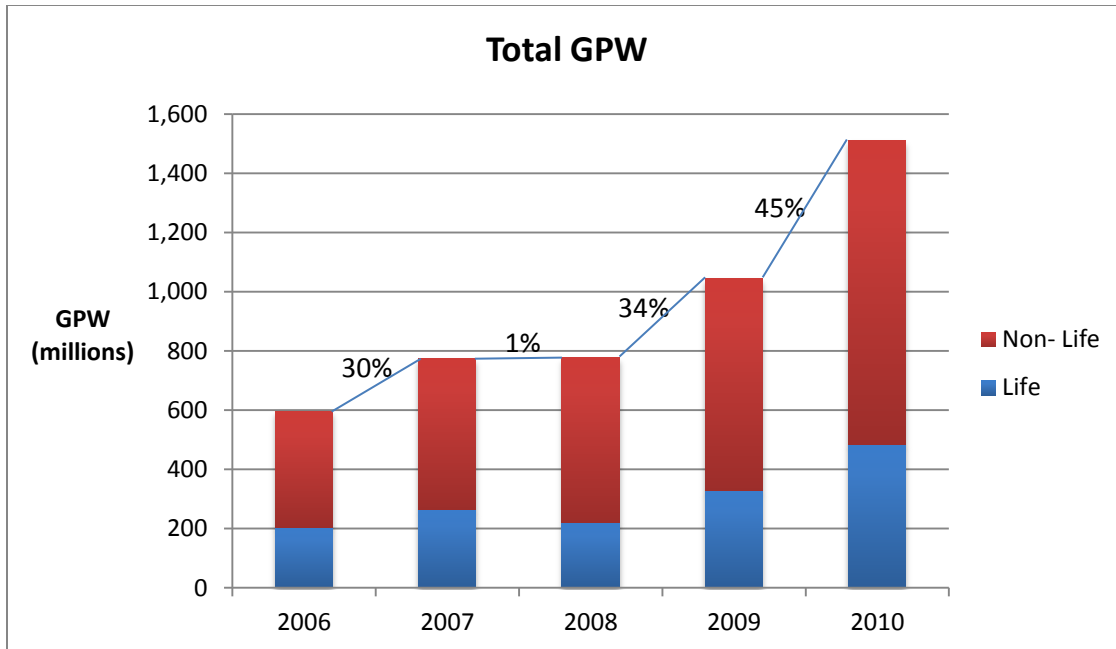
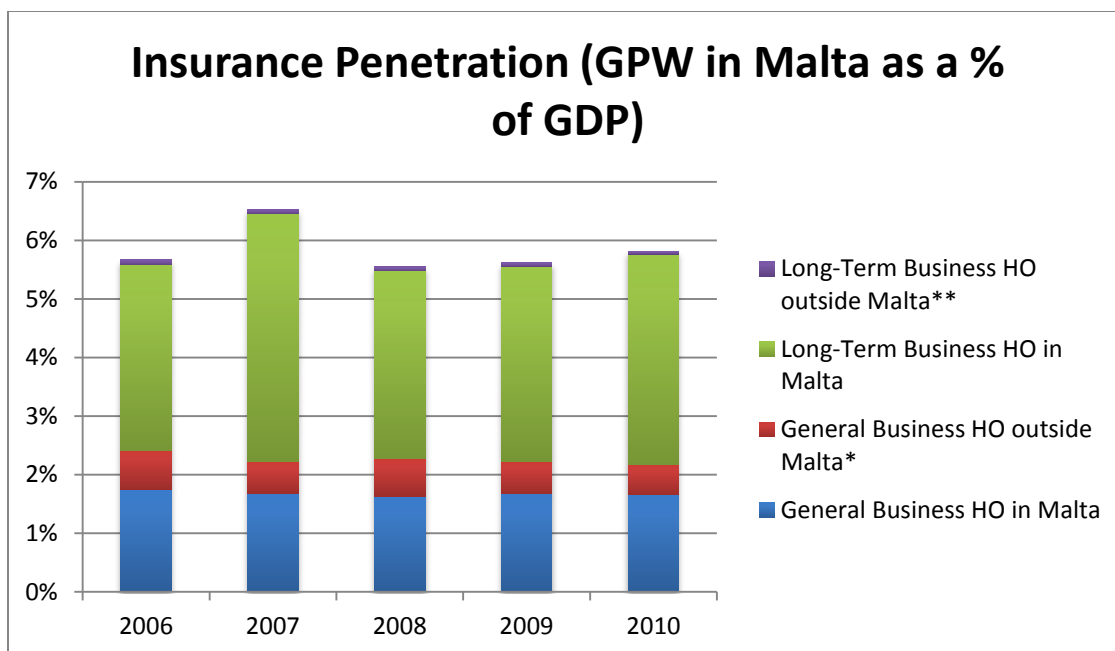


Figure 1.1: Total GPW

## 1.2. Insurance penetration

According to National Statistics Office (NSO), the Gross Domestic Product<sup>1</sup> (GDP) for 2010 amounted to €6.2 billion, an increase of 6.8% over 2009. The ratio of GPW in Malta to gross domestic product (GDP), an indicator of insurance penetration, increased slightly in 2010 over the previous year, from 5.62% to 5.82%. In this case, the figures for GPW in Malta include also that written/serviced by companies with head office (HO) outside Malta that write business in the domestic sector through branches/agencies. In 2010, there were 6 European insurance undertakings that wrote non-life business in Malta under the provisions of freedom of establishment and 2 Non-Life non-EU/EEA insurance undertakings authorised under the Insurance Business Act, 1998 that placed business in Malta through agents. In addition there were 3 European insurance undertakings and 2 non-EU/EEA insurance undertakings authorised under the Insurance Business Act, 1998 that serviced life insurance business through agents.

<sup>1</sup> Computed at market prices and excluding the effect of price inflation.



**Figure 1.2: Insurance Penetration**

- *Long-term Business includes investment contracts without discretionary participation features*
- *GDP at current market prices [National Statistics Office, 11 March 2011]*
- *\*\* Refers to non-EU/EEA insurers authorised under the Act and EU/EEA insurers servicing life business in the domestic sector through agents.*
- *\* Refers to non-EU/EEA insurers authorised under the Act and EU/EEA insurers carrying out business in Malta under the right of establishment.*

The increase in insurance penetration is accredited to the increase in the ratio of GPW by life undertakings with HO in Malta to GDP, since a marginal decrease over the previous year in the ratio of GPW to GDP was observed for the other three categories shown in Figure 1.2 above.

### 1.3. Concentration of the insurance market

The domestic sector remains highly concentrated, especially in the life sector. In fact, the 3 largest life insurance undertakings write 97.1% of the total life GPW by undertakings with HO in Malta and undertakings with HO outside Malta that service life business in the domestic sector through agencies. In the case of general business, the 3 largest non-life enterprises write 56.5% of the total non-life GPW by undertakings with HO in Malta and undertakings with HO outside Malta that write non-life business in the domestic sector through branches/agencies. Similar levels of concentration have been maintained in the last 5 years for both life and non-life business.

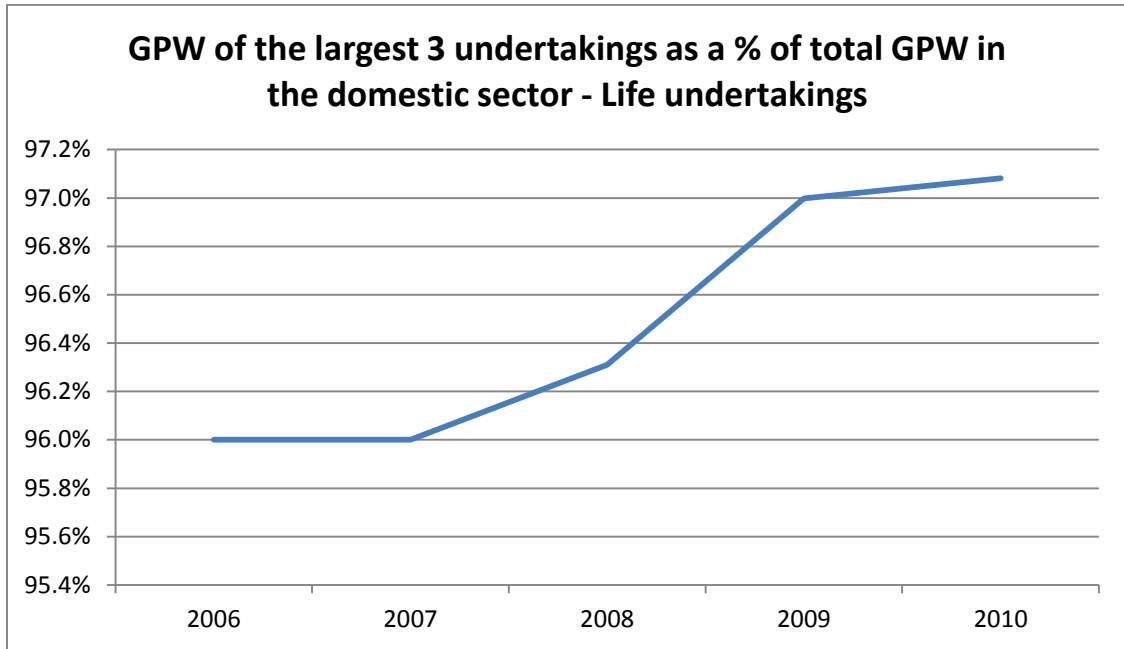


Figure 1.3: Concentration of the domestic life insurance market

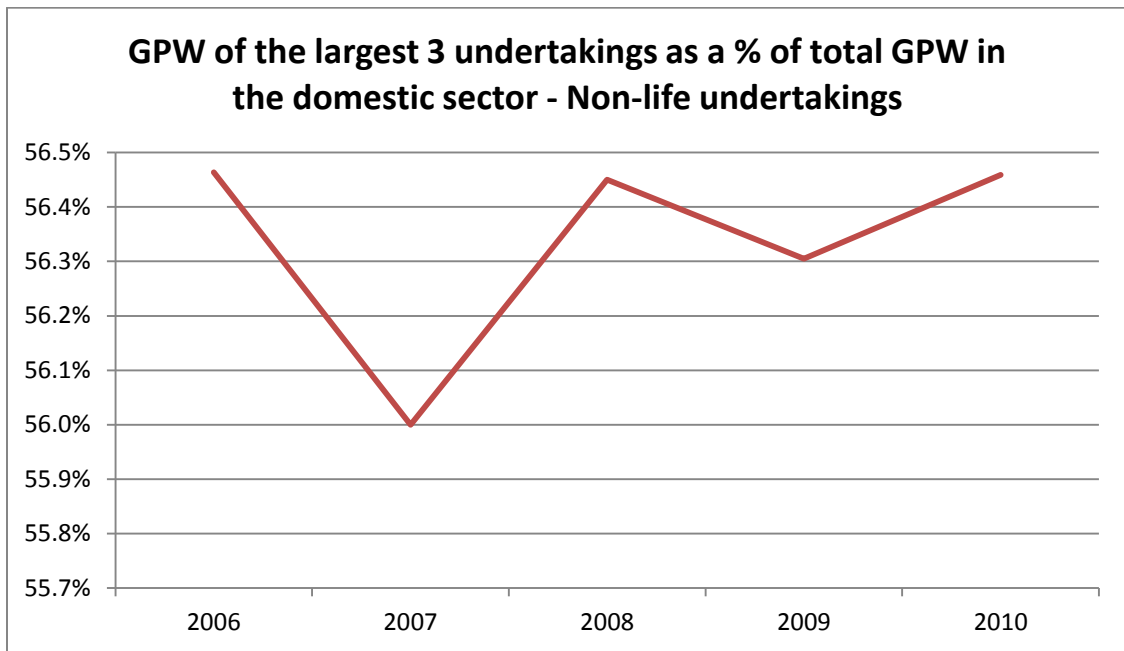


Figure 1.4: Concentration of the domestic non-life insurance market

## 1.4. Asset allocation

Following the substantial change in asset allocation of insurance undertakings observed between 2008 and 2009, asset allocations in 2010 were maintained in the same levels as those for the previous year. *Shares and other variable-yield securities and units in unit trusts* made up 9% (2009: 16%) of the total investment assets<sup>2</sup> of insurance undertakings. *Debt securities and other fixed income securities* made up 51% (2009: 35%) of the total investment assets.

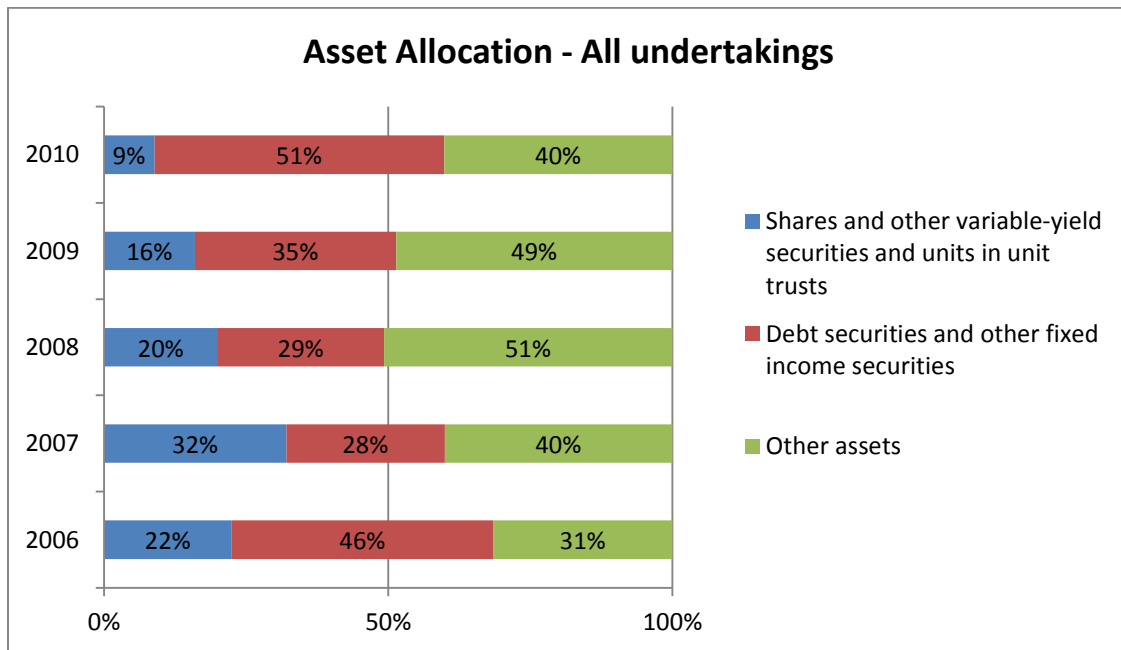


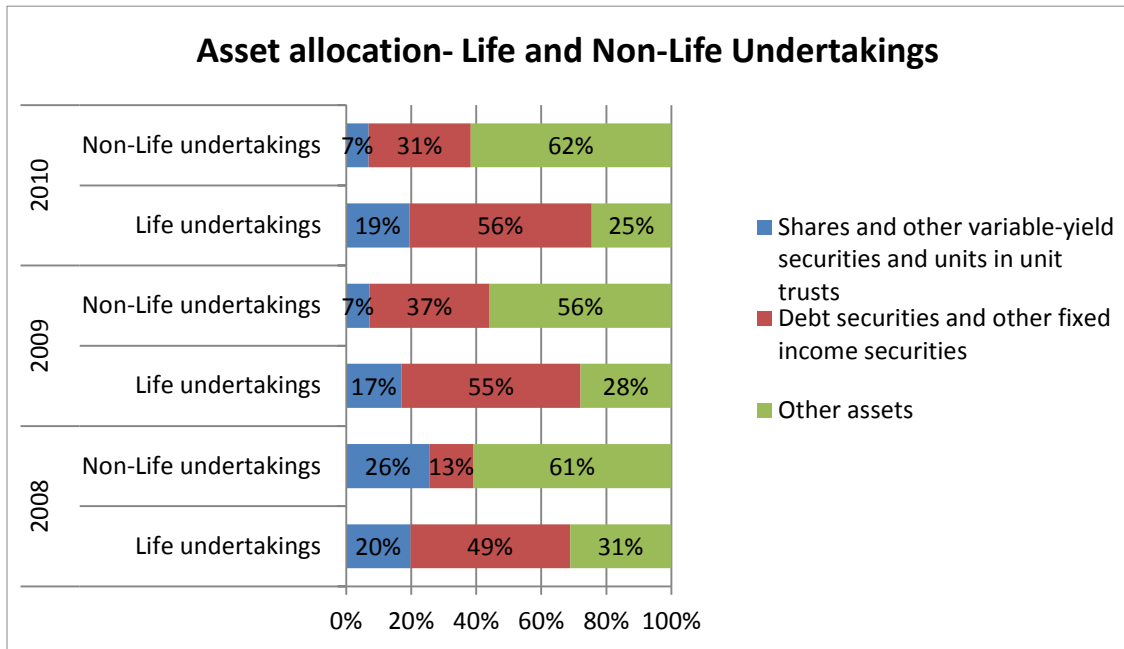
Figure 1.5: Asset Allocation of the insurance market

It is noted that whilst non-life insurance undertakings<sup>3</sup> held only 7% of their total investment assets in *shares and other variable-yield securities and units in unit trusts*, life insurance undertakings<sup>4</sup> held 19%. Also, *debt and other fixed income* holdings cover 31% of the non-life undertakings' total investment assets and 56% of the life undertakings' total investment assets. The *other assets* category consisted mainly of investments in affiliated enterprises and participating interests, deposits with credit institutions and other financial investments and deposits with ceding enterprises.

<sup>2</sup> Excluding investments for the benefit of life-assurance policyholders who bear the investment risk.

<sup>3</sup> Excluding reinsurers and composites writing non-life business.

<sup>4</sup> Excluding reinsurers and composites writing life business.



**Figure 1.6: Asset Allocation of life and non-life undertakings**



## 1.5. Capital Adequacy of Insurance Undertakings

As at 31 December 2010, the solvency ratio of the aggregated insurance market was 470% as opposed to the previous year when the solvency ratio stood at 307%. The following table shows the solvency ratios for non-life, life and reinsurance business over the past 4 years. It may be noted that the solvency ratio of non-life insurance business recovered in 2010 over the previous year following a constant decrease since 2007. Also, excluding the non-life undertakings authorised during 2010, the non-life solvency ratio stood at 409% as at end 2010, implying that the increase between 2009 and 2010 was not influenced by new undertakings authorised during 2010. On the other hand, the solvency ratio of life undertakings has been decreasing since 2008. This was brought about by an increase in the levels of available capital that was lower than the increase in the capital requirements.

The solvency ratios of reinsurers increased significantly over the previous year. As for non-life undertakings, this increase was not brought about by the new reinsurance undertakings authorised in 2010. Excluding reinsurance undertakings licensed in 2010, the solvency ratio for reinsurers stood at 892%.

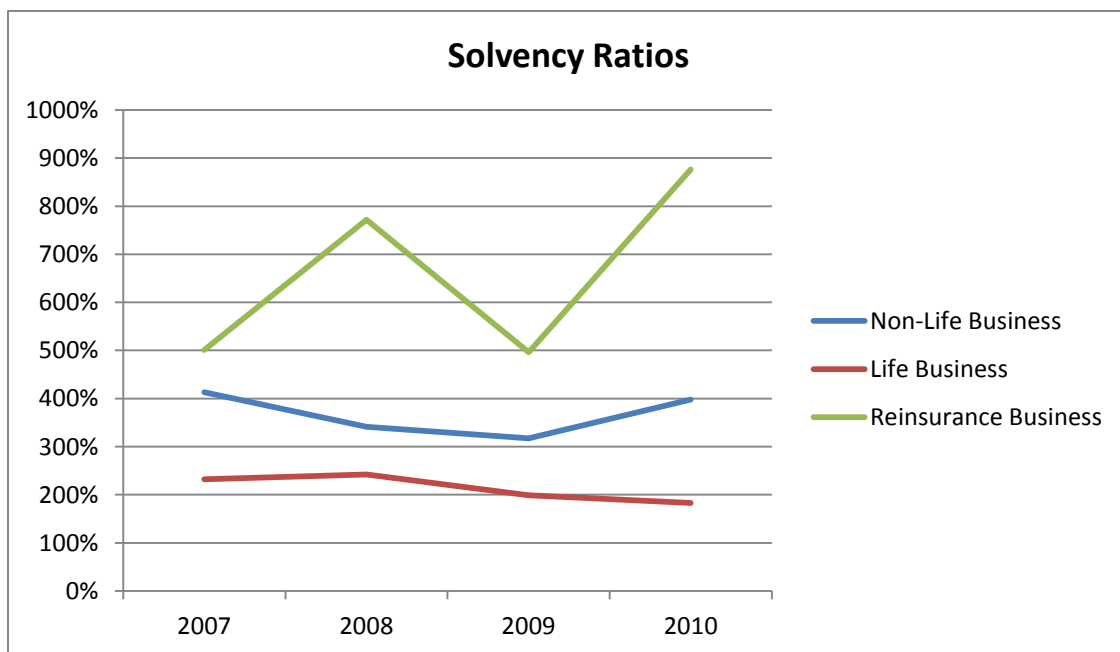


Figure 1.7: Capital adequacy of the insurance market

## 2. General Business Overview

### 2.1. Gross Premium Written

There has been a substantial increase of 43% in non-life GPW by companies with HO in Malta, with amounts increasing from €716m in 2009 to €1,026m in 2010.

The following figure shows the premium growth in each group of classes of general business over the past 5 years. The *fire and other damage to property* group of classes remains the leading group in amounts of premiums written, comprising 41% of the total GPW in 2010. The *accident and health* group of classes recorded an increase in premiums written of 85% over 2009, while motor insurance premia increased by 39%.

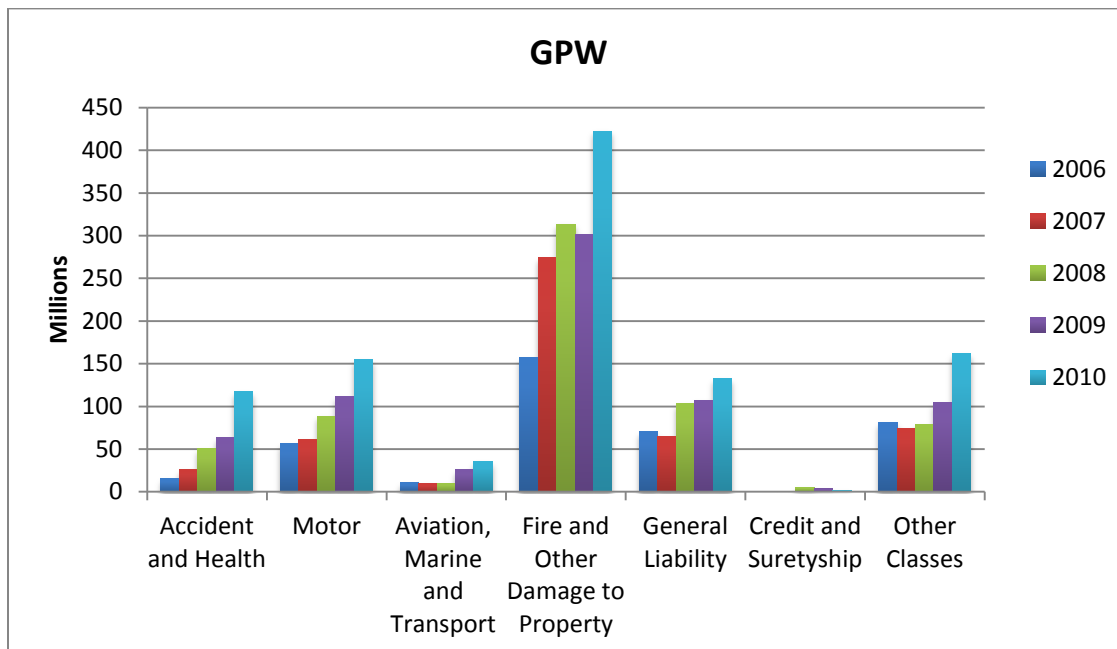


Figure 2.1: GPW by non-life undertakings

GPW in relation to risks situated in Malta increased from €96m in 2009 to €104m in 2010 (an 8% increase), while GPW in relation to risks situated outside Malta increased from €621m in 2009 to €923m in 2010 (a 49% increase).

Tables 2.1 and 2.2 below show the aggregated GPW in Malta for 2009 and 2010, including that written by companies with HO outside Malta that write business in the domestic sector through branches/agencies. It is noted that companies with HO outside Malta maintained the same levels of business in 2010 over the previous year within each group of classes. It is also noted that more than half of the *accident and health* business remains written by companies with HO outside Malta, with 55% of the total GPW in 2010 in respect of risks situated in Malta within this class.

Table 2.1: GPW 2009 for non-life undertakings with risks in Malta

GPW 2009 - Risks situated in Malta	Accident and Health	Motor	Aviation, Marine and Transport	Fire and other Damage to Property	Liability	Credit and Suretyship	Other Classes	Total
	€000's	€000's	€000's	€000's	€000's	€000's	€000's	€000's
HO in Malta	7,935	52,144	4,293	24,151	6,156	-	997	95,676
HO outside Malta - branches of EU/EEA countries	14,776	5,396	239	3,297	784	19	101	24,612
HO outside Malta - branches of non-EU/EEA countries	205	4,283	31	1,397	1,192	-	-	7,108
<b>Total GPW</b>	<b>22,916</b>	<b>61,823</b>	<b>8,987</b>	<b>24,421</b>	<b>8,132</b>	<b>19</b>	<b>1,098</b>	<b>127,396</b>

Table 2.2: GPW 2010 for non-life undertakings with risks in Malta

<b>GPW 2010 - Risks situated in Malta</b>	<b>Accident and Health</b>	<b>Motor</b>	<b>Aviation, Marine and Transport</b>	<b>Fire and other Damage to Property</b>	<b>Liability</b>	<b>Credit and Suretyship</b>	<b>Other Classes</b>	<b>Total</b>
	<i>€000's</i>	<i>€000's</i>	<i>€000's</i>	<i>€000's</i>	<i>€000's</i>	<i>€000's</i>	<i>€000's</i>	<i>€000's</i>
<b>HO in Malta</b>	12,542	51,331	5,623	25,675	6,575	-	1,882	<b>103,628</b>
<b>HO outside Malta - branches of EU/EEA countries</b>	15,267	5,598	182	2,620	610	-	121	<b>24,398</b>
<b>HO outside Malta - branches of non-EU/EEA countries</b>	289	4,586	41	1,444	1,174	-	-	<b>7,533</b>
<b>Total GPW</b>	<b>28,097</b>	<b>61,515</b>	<b>5,846</b>	<b>29,739</b>	<b>8,359</b>	<b>-</b>	<b>2,003</b>	<b>135,559</b>

## 2.2. Source of business

Insurance undertakings writing non-life business have generally maintained similar distributions of the sources of business over the past 5 years. When the total non-life business is considered, the most popular source of business is that generated directly, with 38% of the business in respect of risks situated in Malta being generated in this way, going up to 70% of the business in respect of risks situated outside Malta.

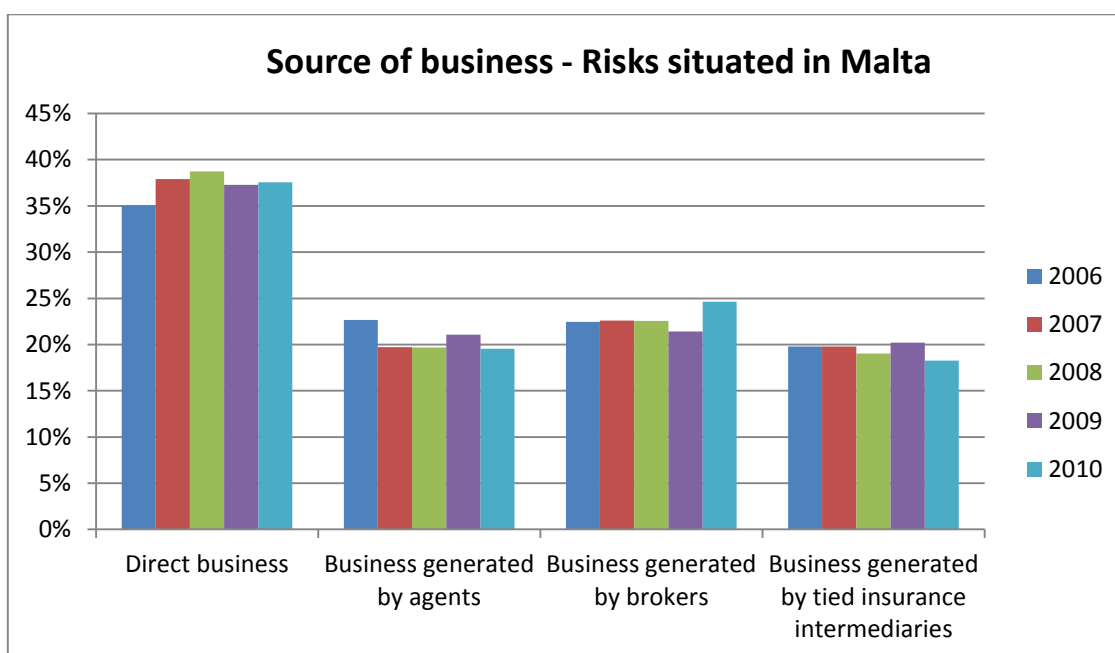


Figure 2.2: Source of business for non-life undertakings with risks in Malta

The following figures show the development of the distribution of the source of business for risks situated in Malta over a 5-year period for *accident and health*, *motor*, *fire and other damage to property*, and *liability* business separately. Whilst notable changes occurred over the years in the source of *accident and health* business, the other three groups of classes maintained level proportions for the source of business over the 5-year period.

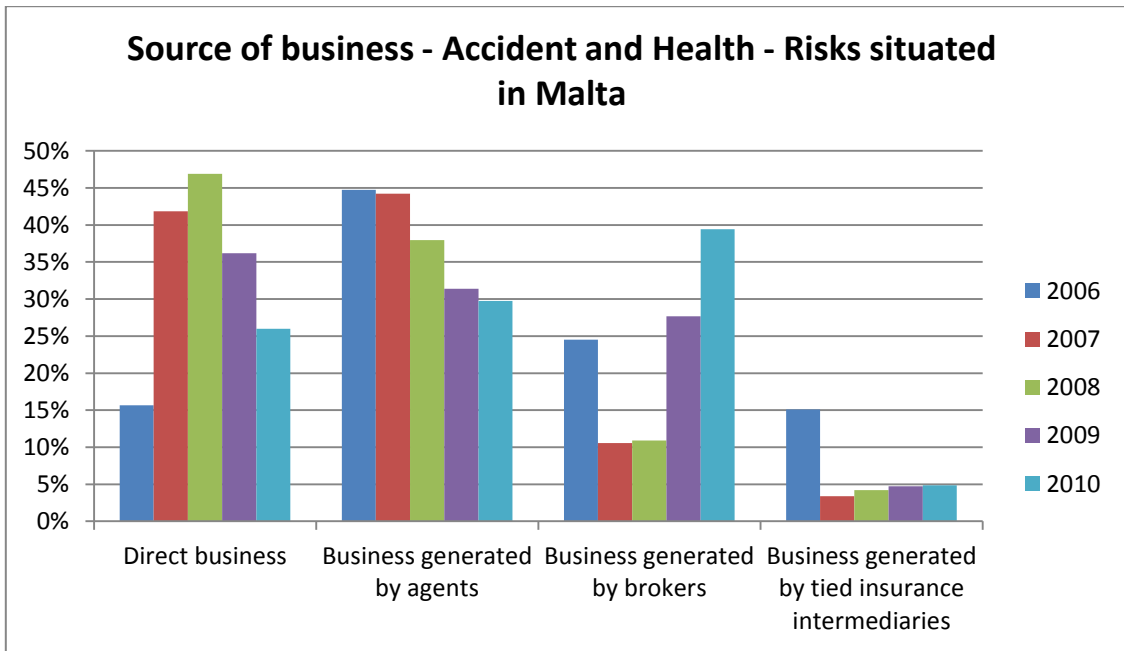


Figure 2.3: Source of the accident and health business for non-life undertakings writing risks in Malta

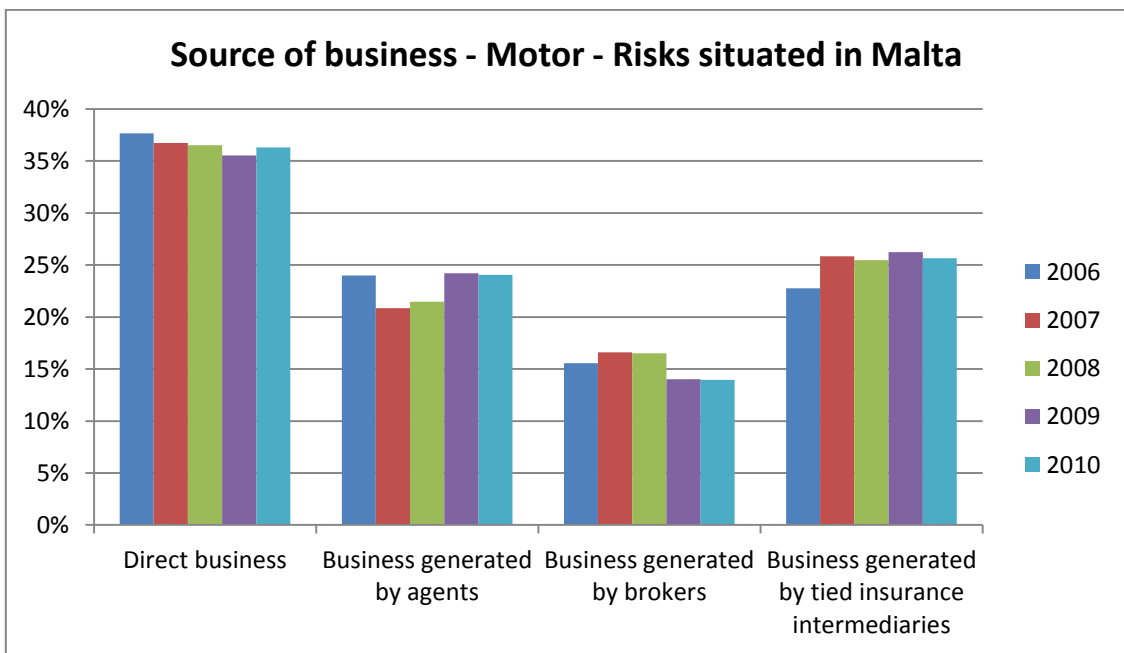


Figure 2.4: Source of the motor business for non-life undertakings writing risks in Malta

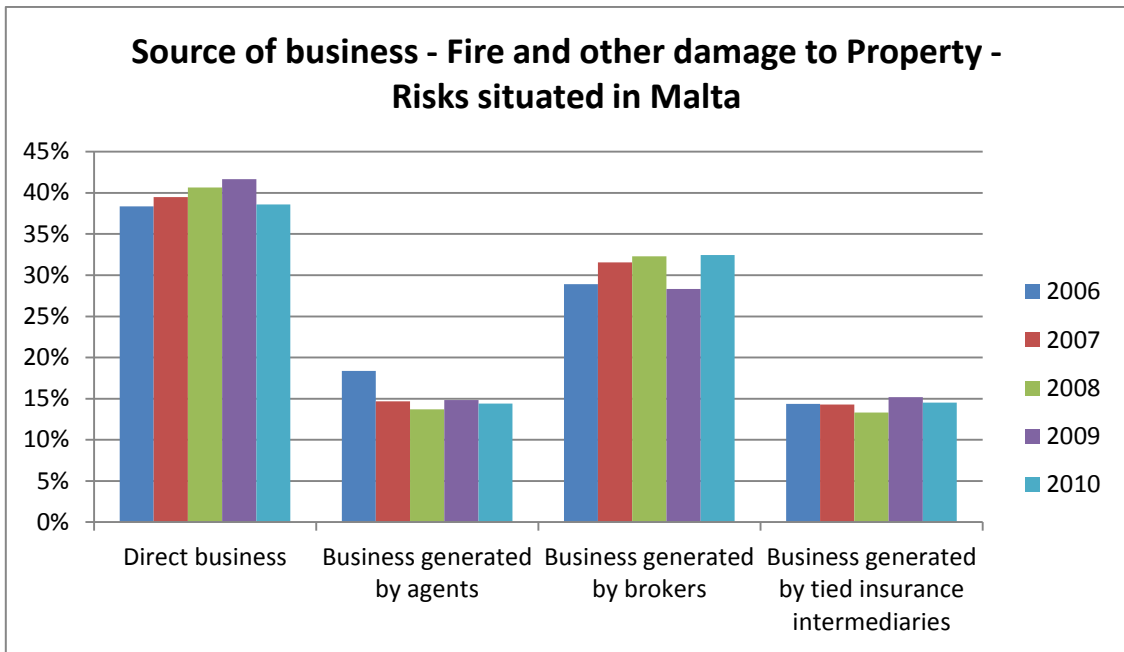


Figure 2.5: Source of fire and other damage to property business for non-life undertakings writing risks in Malta

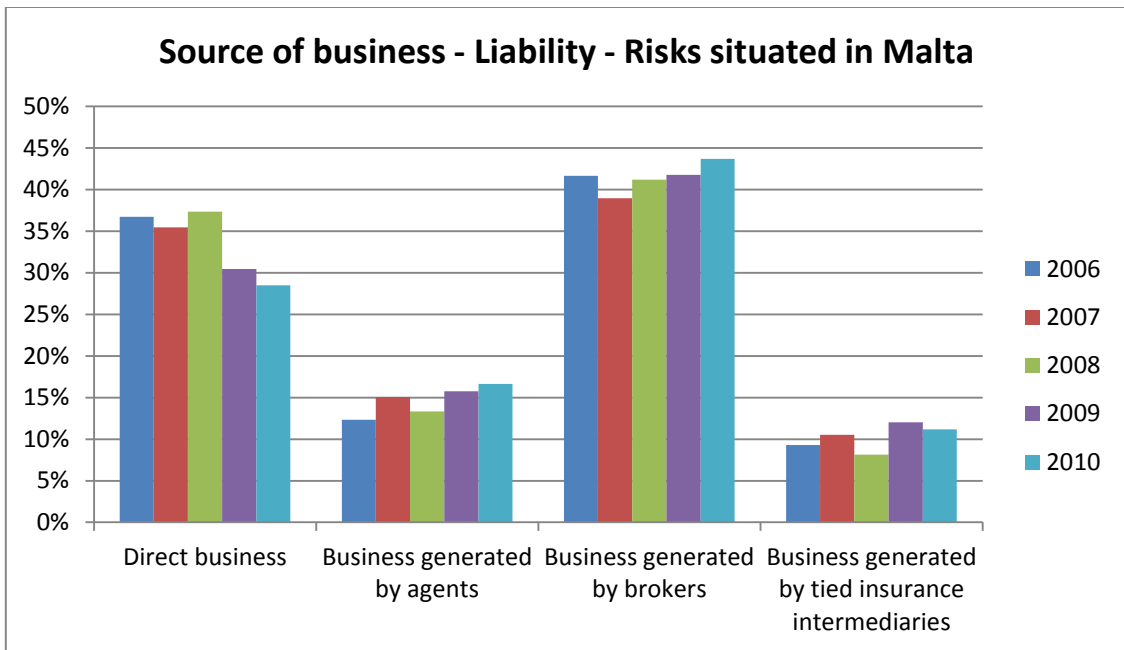


Figure 2.6: Source of the liability business for non-life undertakings writing risks in Malta

### 2.3. Claims

Total net claims paid (NCP) increased by 14%, from €268m in 2009 to €306m in 2010. Net claims paid were highest in respect of *fire and other damage to property and motor*, which in aggregate accounted for 64% of the total net claims paid during 2010. The most significant change over the last year has occurred in relation to the net claims paid in respect of *accident and health* classes, with the respective amount increasing considerably since end 2009, from €8.2m to €43.7m in 2010.

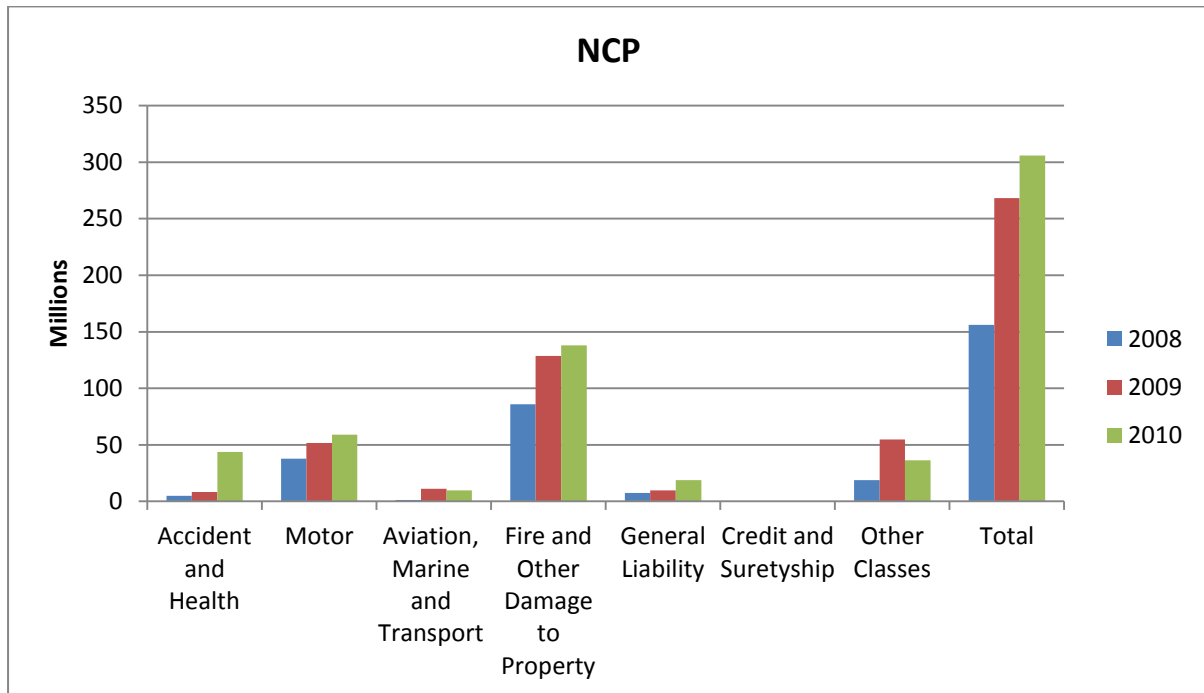


Figure 2.7: NCP by the non-life insurance market

Defining the insurance net pay-out ratio as the proportion of net premiums written paid out in net claims, the total net pay-out ratio for 2010 stood at 38%, down from 53% in 2009. In terms of the group of classes, this ratio was highest for *motor* business with a percentage figure of 47% (down from 58% in 2009) followed by *fire and other damage to property* business with a percentage figure of 40% (down from 61% in 2009). It is also noted that this ratio increased significantly since end 2009 in respect of *accident and health* business (2010: 37%, 2009: 19%).



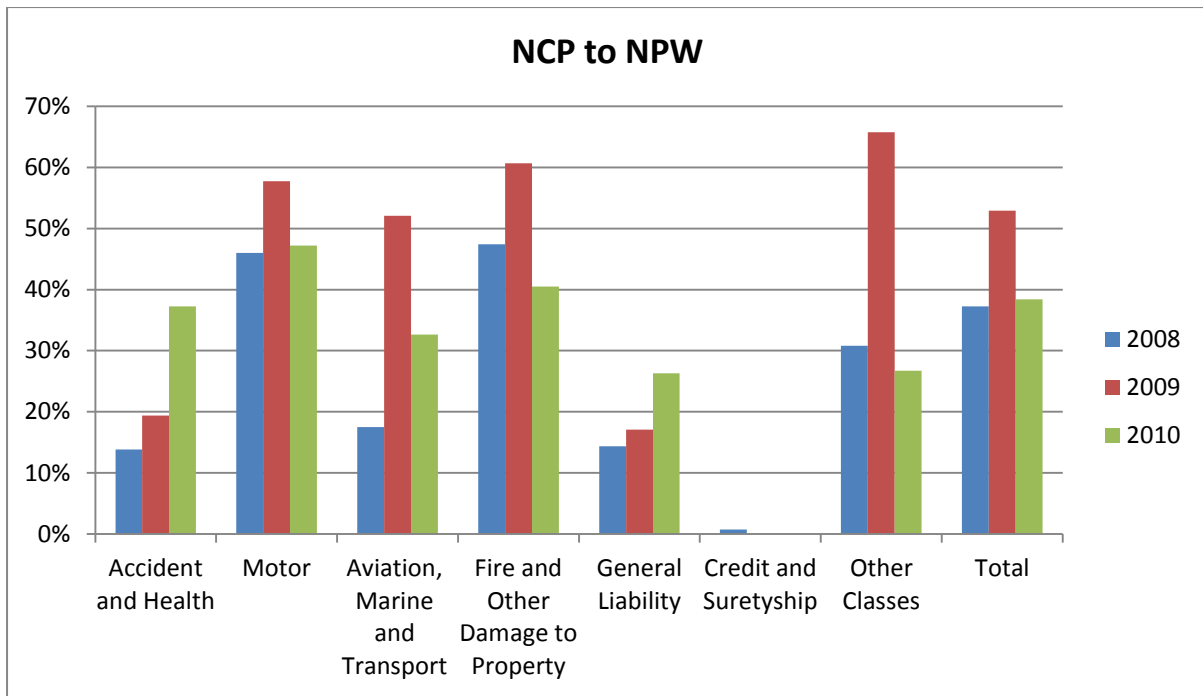


Figure 2.8: NCP to NPW for the non-life insurance market

The following figure shows the net claims paid (NCP) as a proportion of the net claims incurred (NCI) over the same period, for each of the past 3 years. Figures for NCP and NCI exclude claims management costs.

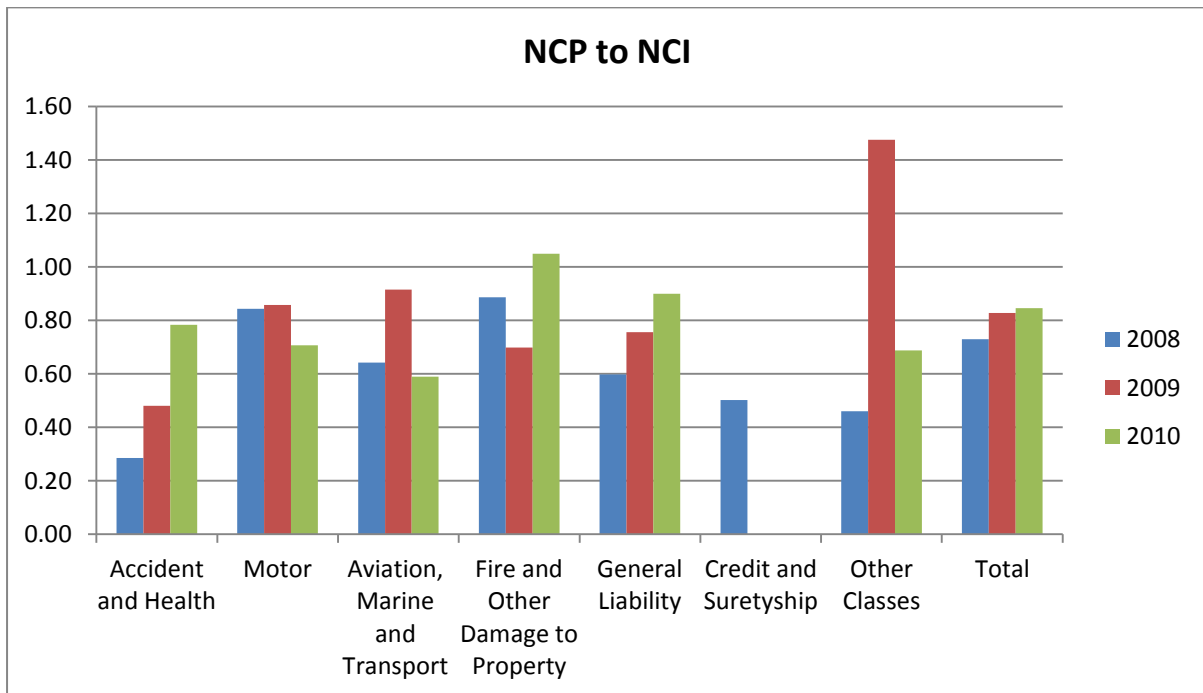


Figure 2.9: NCP to NCI for the non-life insurance market

It is noted that the total amount of NCP in proportion to the total NCI has increased over the last 3 years. This increasing trend over the last 3 years may indicate that insurance undertakings writing non-life business are, overall, holding lower claims outstanding reserves, since, apart from the observed increase in NCP, NCI figures increased as well over the 3 year period.

## 2.4. Key financial indicators of non-life undertakings

### 2.4.1. Loss Ratios

The net loss ratio is the ratio of net claims incurred to net premiums earned. From the figure below it can be seen that the net loss ratio for the *fire and other damage to property* classes excluding reinsurance, decreased significantly over the previous year while the expense ratio has kept relatively stable over the past 5 years. The significant decrease from 2009 to 2010 is due to a large decrease in net claims incurred (2009: €170.5m 2010: €64.6m) as opposed to net earned premiums which experienced only a slight change (2009: €188.2m 2010: €183.8m).

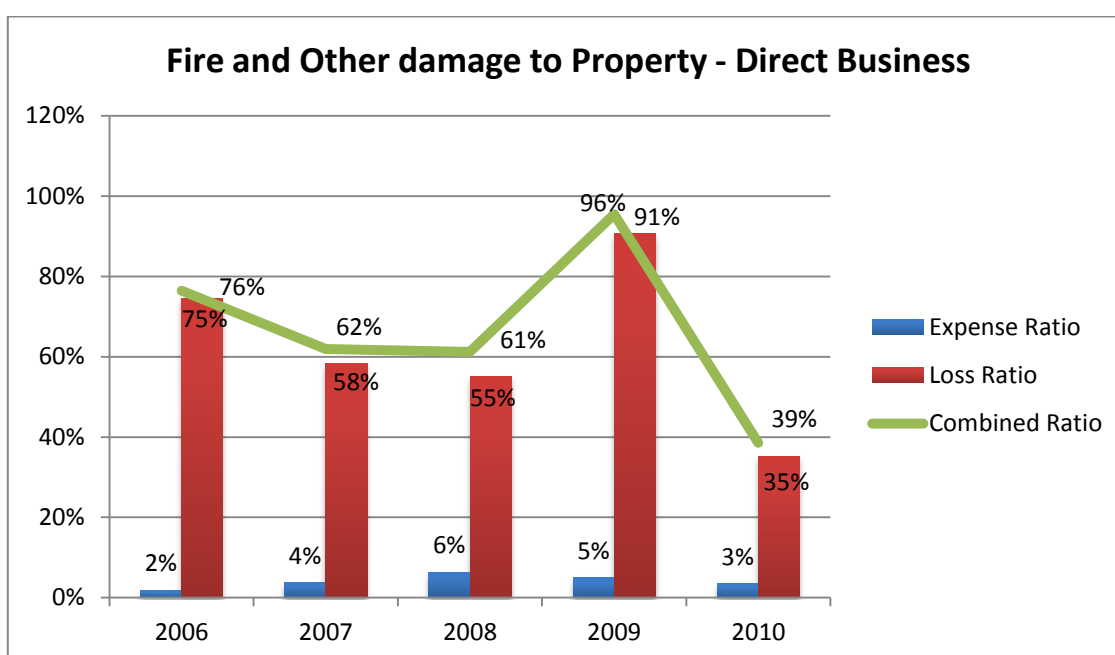
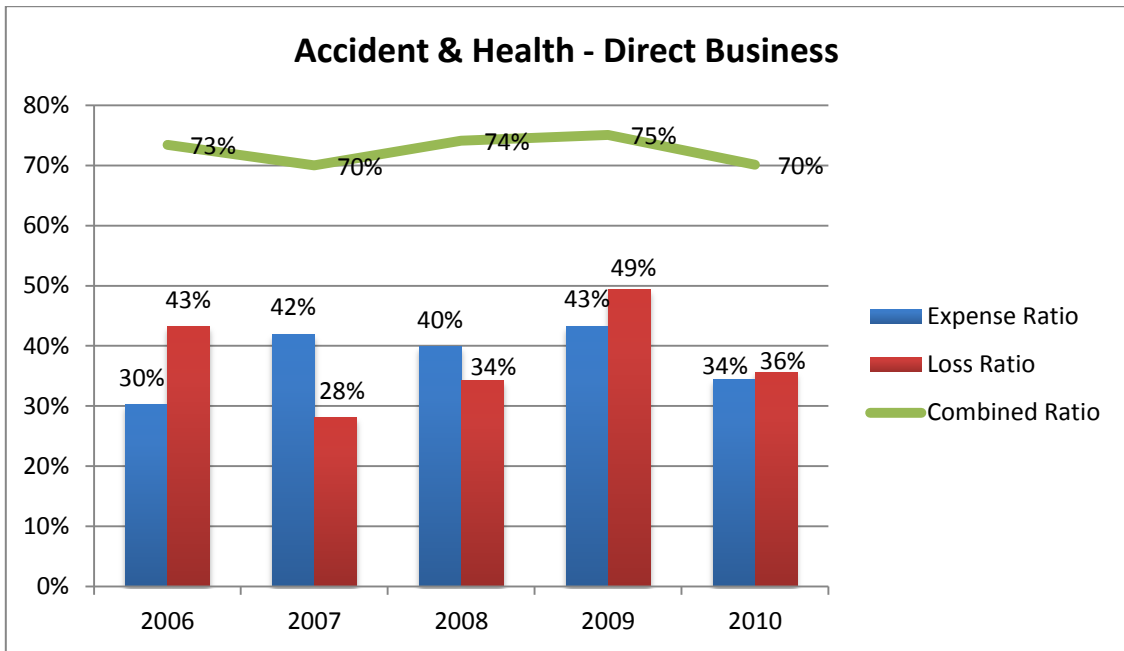


Figure 2.10: Loss ratios for non-life undertakings writing direct fire and other damage to property business

In the case of pure reinsurance business, both the net loss ratio and expense ratio increased for the *fire and other damage to property* group of classes over the past 3 years. The expense ratio increased from 22% in 2009 to 36% in 2010. Net Loss ratio increased from 56% in 2009 to 64% in 2010. The increase in net loss ratio occurred due to a percentage increase in net claims incurred larger (from €13.7m in 2009 to €66.9m in 2010) than the percentage increase in net earned premiums (from €24.7m in 2009 to €104m in 2010).

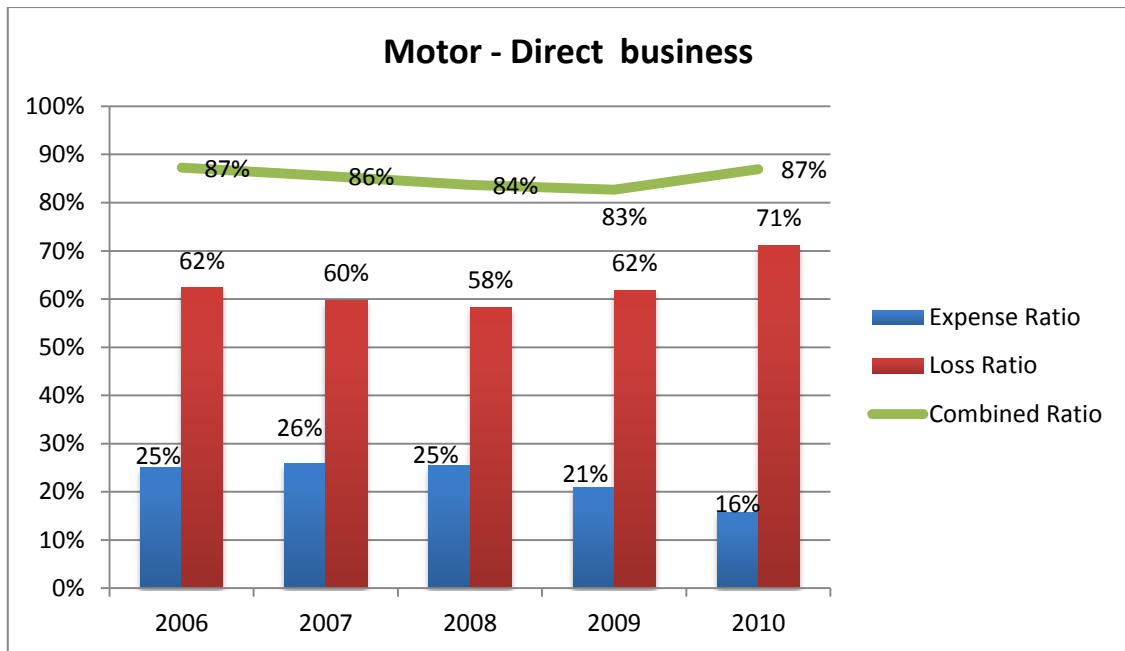
The combined ratio for the *accident and health* group of classes, excluding reinsurance, has remained relatively stable over the past 5 years.



**Figure 2.11: Loss ratios for non-life undertakings writing direct accident and health business**

The net loss ratio for the *accident and health* group of classes for business written by pure reinsurers, increased from 46% (2009) to 77% (2010). The increase was mainly due to a percentage increase in net claims incurred (2009: €11.3m 2010: €43m) that was larger than the percentage increase in earned premiums (2009: €24.8m 2010: €62.2m). The expense ratio has decreased from 23% in 2009 to 13% in 2010.

The combined ratio for the *motor* business excluding reinsurance has remained relatively stable over the past 5 years. Since 2007, the expense ratio is decreased, while the loss ratio has registered an increase since 2008.



**Figure 2.12: Loss ratios for non-life undertakings writing direct motor business**

In the case of pure reinsurers, the net loss ratio for the *motor* business decreased from 146% in 2009 to 91% in 2010. This significant decrease is mainly due to a percentage increase in net earned premiums (from €8.2m in 2009 to €22.1m in 2010) larger than the percentage increase in net claims incurred (€11.9m in 2009 to €20.1m in 2010). The expense ratio has increased slightly from 12% in 2009 to 14% in 2010.

## 2.4.2. Retention Ratio

The *Insurance Retention Ratio* gives an indication of the volume of total risk which is retained by an insurer rather than being ceded to reinsurers. It is defined as follows:

$$\text{Retention Ratio} = \frac{\text{Net Premiums Written}}{\text{Gross Premiums Written}}$$

**Table 2.3: Retention ratios for non-life insurance market by groups of classes**

Groups of classes	Retention Ratio				
	2006	2007	2008	2009	2010
<b>Accident and Health</b>	0.82	0.83	0.70	0.67	0.99
<b>Motor</b>	0.95	0.89	0.93	0.80	0.81
<b>Aviation, Marine and Transport</b>	0.74	0.67	0.67	0.84	0.85
<b>Fire and Other Damage to Property</b>	0.61	0.64	0.58	0.70	0.81
<b>General Liability</b>	0.12	0.42	0.50	0.54	0.54
<b>Credit and Suretyship</b>	-	1.00	0.15	0.00	0.08
<b>Other Classes</b>	0.48	0.70	0.77	0.80	0.84
<b>Total</b>	<b>0.55</b>	<b>0.66</b>	<b>0.64</b>	<b>0.71</b>	<b>0.78</b>

The above figures clearly indicate that there was an increasing trend in the total retention ratio over the last 5 years, with 2010 marking the highest level of retention of premiums by the non-life insurance undertakings. It is noted that practically all premiums in respect of the *accident and health* group has been retained by insurance undertakings. High retention ratios have also been maintained in the *motor* business throughout the 5-year period. On the other hand, almost half of the GPW in respect to the *general liability* business has been ceded to reinsurers.

### 3. Long-Term Business Overview

#### 3.1. Gross Written Premium

Gross written premium in respect of long term business has increased by 48%, from €327m in 2009 to €485m in 2010. Premiums were mainly written in respect of *life and annuity* business, making up 87% of total gross premiums written.

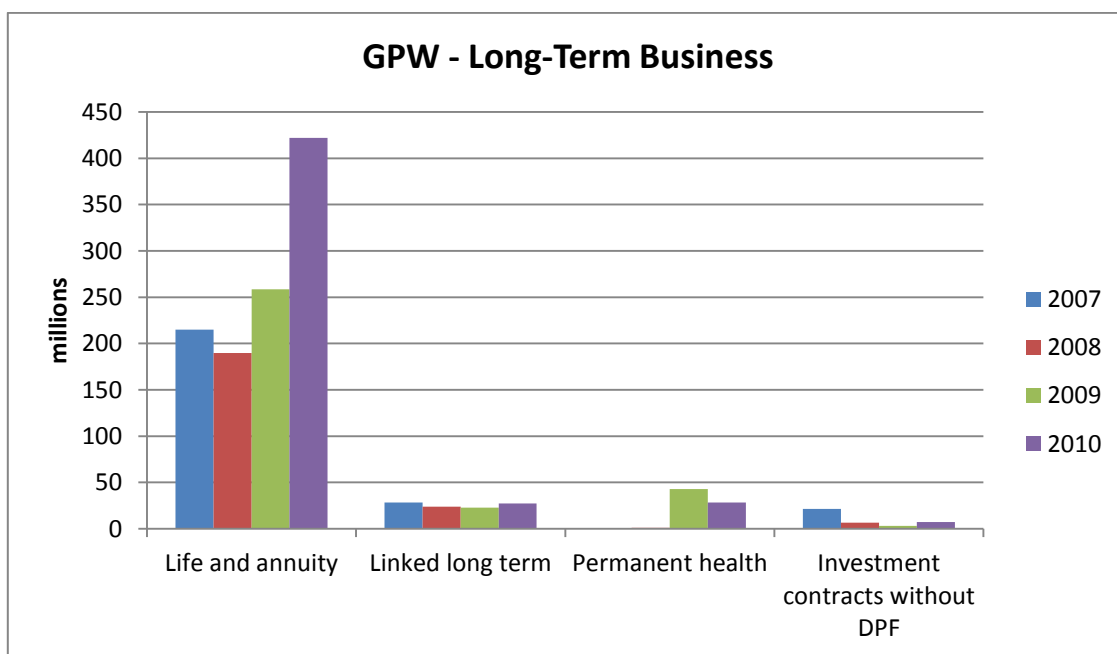


Figure 3.1: GPW by life undertakings

With respect to commitments in Malta, both *life and annuity* business and *linked long-term* business registered an increase in premiums in 2010, with 14% and 21% increases over the previous year respectively. Both direct and reinsurance business registered significant increases over the previous year in respect of commitments outside Malta.

### 3.2. Source of business

Life business in the domestic sector is mainly generated by tied insurance intermediaries. Business generated in this way accounts for 94% of the business for commitments in Malta written by companies with HO in Malta, with only 2% of the business being generated directly. On the other hand, 90% of the life business written by companies with HO in Malta in respect of commitments outside Malta is generated directly.

### 3.3. Key financial indicators of life undertakings

#### 3.3.1. Discontinuance Rate

The discontinuance rate is calculated as follows:

$$\text{Discontinuance rate} = \frac{\text{surrenders} + \text{lapses}}{\text{policies in force at start of year} + 0.5(\text{new business})}$$

The discontinuance rate experienced by life undertakings writing business in Malta maintained similar levels as the previous year, with only a marginal increase from 6.43% to 6.46%.

Table 3.1: Discontinuance rate for life undertakings

	Commitments where Malta is the country of commitment	
	2009	2010
<b>Discontinuance Rate</b>	6.43%	6.46%

Also, it can be observed that the gross acquisition costs per new policy decreased slightly from 2009 whereas the net acquisition cost per new policy increased slightly.

Table 3.2: Gross/Net acquisition costs per new policies for commitments where Malta is the country of commitment

	Commitments where Malta is the country of commitment	
	2009	2010
	€	€
<b>Gross acquisition costs/ New policies</b>	476.38	471.75
<b>Net acquisition costs/ New policies</b>	454.41	458.53



### 3.3.2. Retention Ratio

The retention ratios, as defined in Section 2.4.2, in respect of life business for the last 5 years were as follows:

Table 3.3: Retention ratios for the long-term business

Retention Ratio			
	Commitments where Malta is the country of commitment	Commitments where Malta is NOT the country of commitment	Total
2006	0.97	1.00	0.97
2007	0.97	1.00	0.98
2008	0.96	0.74	0.92
2009	0.97	0.90	0.94
2010	0.96	0.90	0.93

Life undertakings writing commitments in Malta have generally retained almost all of the risks themselves, with an average retention of 97% over the past 5 years. Life undertakings writing commitments outside Malta retained an average of 90% of the business written over the past 5 years.