

**MFSA**

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MALTA FINANCIAL SERVICES AUTHORITY

**INSURANCE AND PENSIONS  
SUPERVISION UNIT**

**Insurance Statistical Review 2016**

December 2017

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## **1. Introduction**

This report complements the statistics 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 31<sup>st</sup> December 2016.

For 2016, this document is based on Solvency II submissions to the MFSA with data taken from 31<sup>st</sup> December 2016 Quantitative Reporting Templates or QRT's. National Specific Templates or NSTs supplement this information giving details on sources of business and other experience items.

Previous reports were based on Pillar 1 hand-ins from business statements. This means that certain data items (e.g. lines of business) have different definitions and methods of construction so that prior year on year comparatives are not available this year. In future years, such comparatives will be made available.

Sections 3 to 5 present results for undertakings with Head Office in Malta. They also capture the results for undertakings with Head Office both in and outside of Malta. The long-term business with Head Office 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 Head Office outside Malta refers to non-EU/EEA insurers authorised under the Act and EU/EEA insurers carrying out business in Malta under right of establishment.

## **2. Scope of this report**

This report provides:

- (1) An analysis of the insurance and reinsurance business in 2016;
- (2) Comparisons for up to 5 years from 2012 to 2016 where relevant and available;
- (3) Explanations for any significant changes and market commentary.

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) Composites accounted for in both general and long-term business;
- (5) Results for direct insurers include reinsurance business accepted by the direct insurers;
- (6) There may be minor rounding effects in the totals in the tables and graphs presented.

### 3. Industry Overview

As at 31<sup>st</sup> December 2016, 60 undertakings were authorised by the MFSA to carry out insurance and reinsurance business in terms with the Insurance Business Act (Cap.403).

The table gives a breakdown of the number of authorised undertakings by nature of business between 2012 to 2016:

**Table 3.1 Breakdown of authorised undertakings by nature of business from 2012 to 2016**

| Nature of business | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------|------|------|------|------|------|
| General            | 42   | 44   | 45   | 42   | 45   |
| Life               | 7    | 7    | 6    | 7    | 7    |
| Composite          | 2    | 2    | 2    | 2    | 2    |
| Reinsurers         | 7    | 7    | 7    | 7    | 6    |
| Total              | 58   | 60   | 60   | 58   | 60   |
|                    |      |      |      |      |      |

*Note: These figures are sourced from MFSA accounts.*

#### 3.1 Gross Written Premiums

Gross written premiums written by line of business are given in the following table:

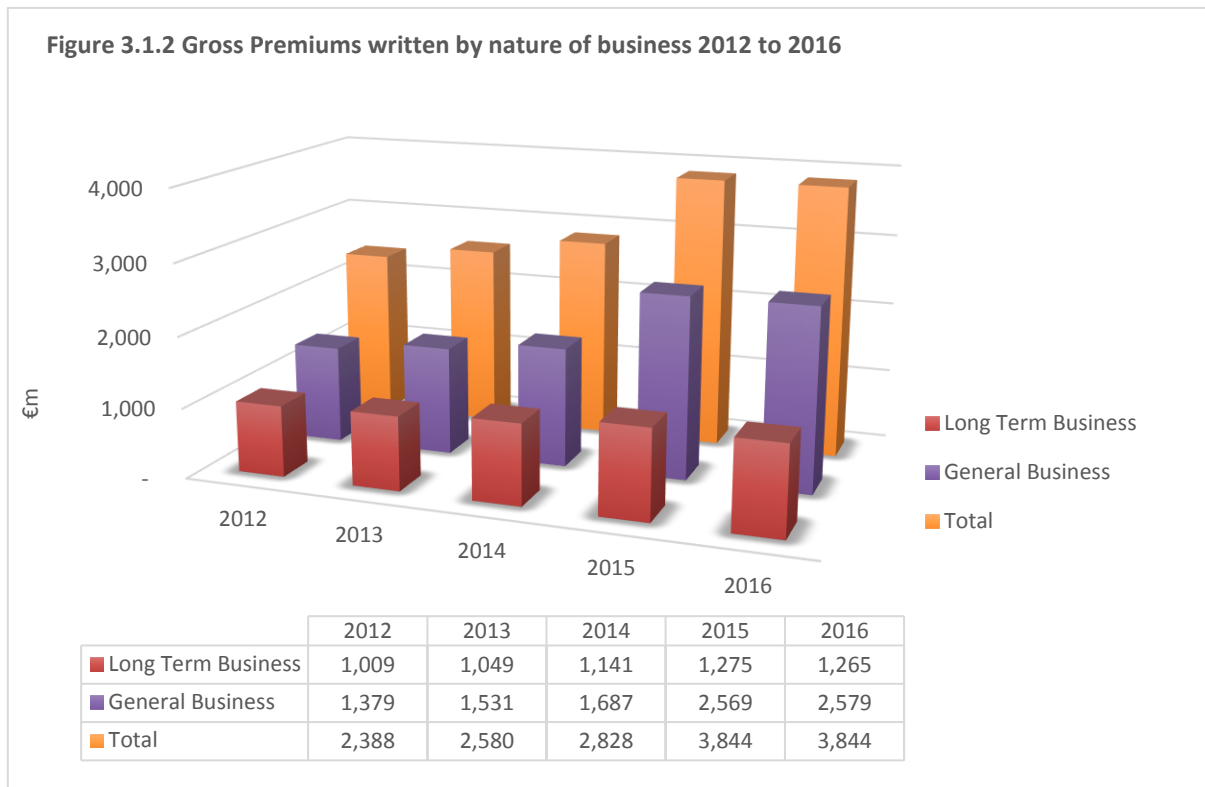
**Table 3.1.1 Gross written premiums by nature of business between 2012 and 2016**

| Nature of business | 2012  | 2013  | 2014  | 2015  | 2016  | % Change  |
|--------------------|-------|-------|-------|-------|-------|-----------|
|                    | (€'m) | (€'m) | (€'m) | (€'m) | (€'m) | 2015/2016 |
| General            | 1,379 | 1,531 | 1,687 | 2,569 | 2,579 | 0%        |
| Long-term business | 1,009 | 1,049 | 1,141 | 1,275 | 1,265 | -1%       |
| Total              | 2,388 | 2,580 | 2,828 | 3,844 | 3,844 | 0%        |

Total gross written premiums have remained broadly stable from 2015 to 2016. Small reductions in long-term business have been offset by gains in general business.

The market remains highly concentrated so results are driven by one or two large players writing large risks not based in Malta.

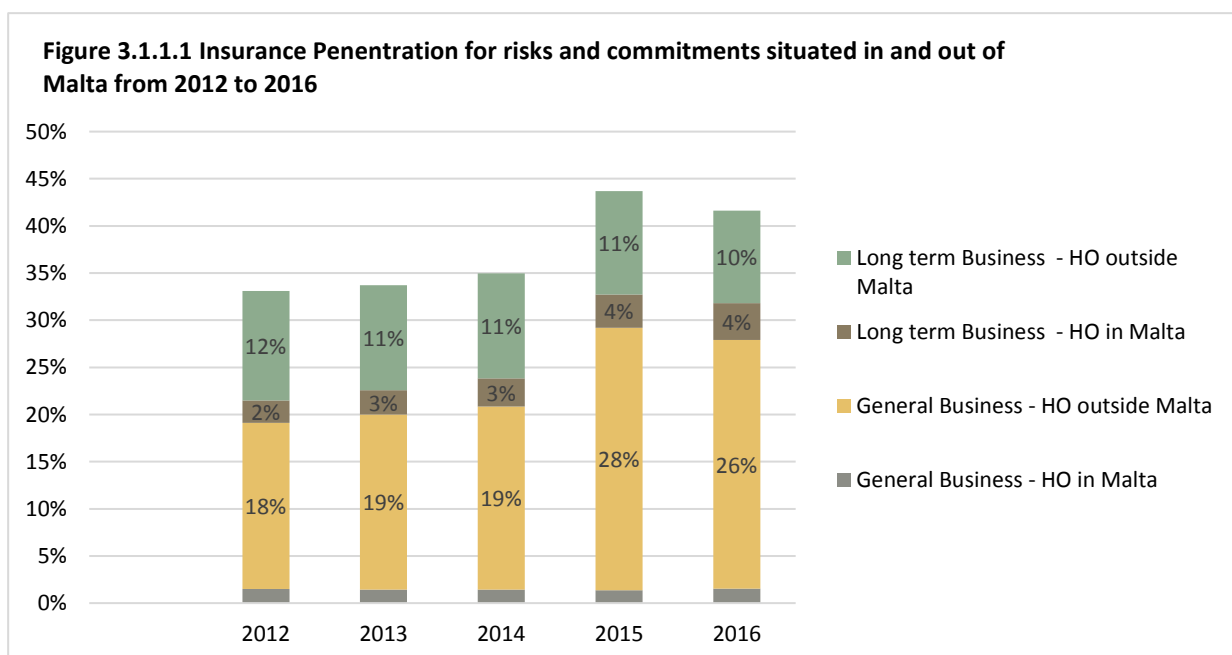
This outcome is shown graphically below:



### 3.1.1 Insurance Penetration of the Domestic Insurance Market

Malta's gross domestic product rose 5% in real terms in 2016 to c€9.2bn (€8.8bn: 2015). So the insurance penetration rate for risks situated in Malta slightly fell for general business (2016: 1.37%, 2015: 1.43%) but increased slightly for long-term business (2016: 3.5%, 2015: 3.0%).

Outcomes are dominated by risks written overseas.



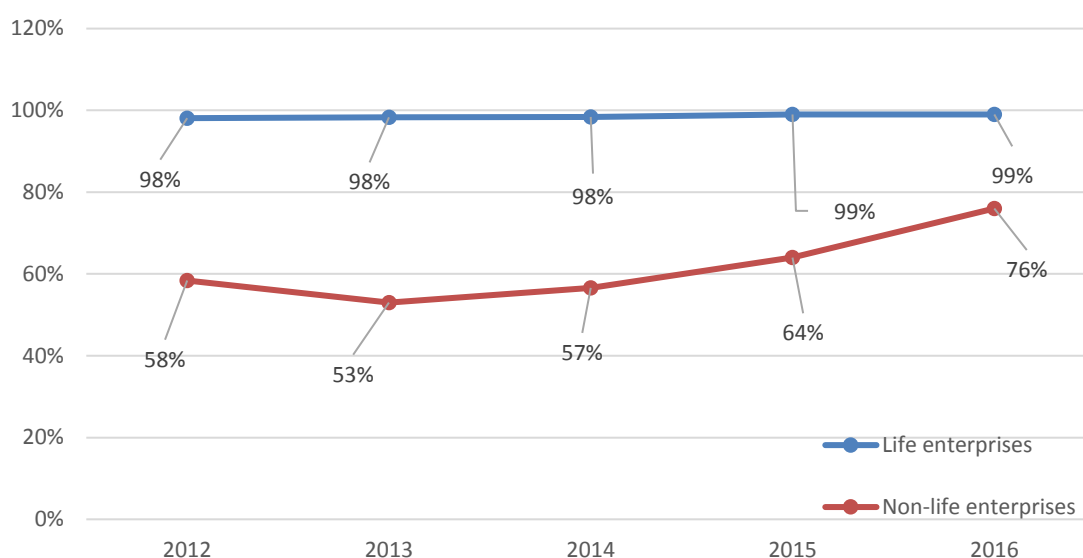
#### Notes

1. GDP at market prices is sourced from the National Statistics Office;
2. Long-term business includes investment contracts without discretionary participation;
3. 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. 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.

### 3.1.2 Concentration of the Domestic Insurance Market

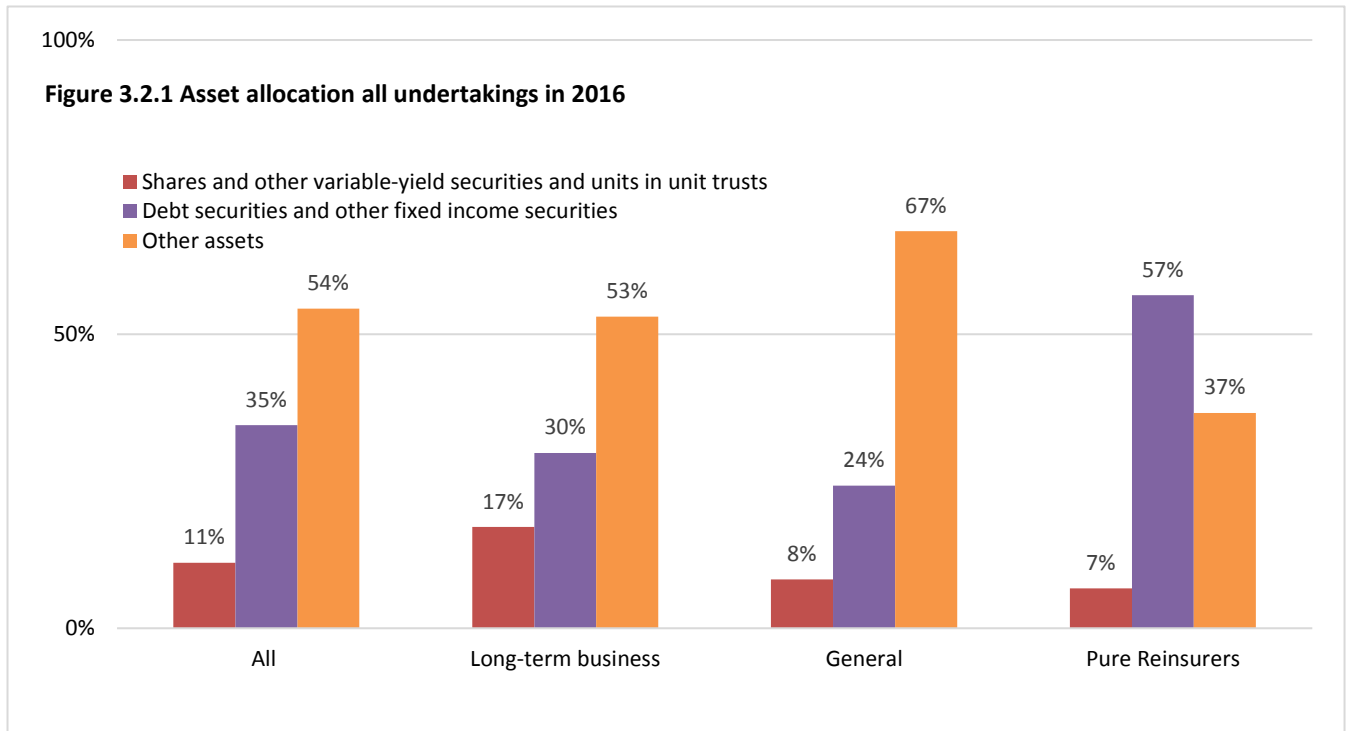
Malta's market in domestic risks is highly concentrated (particularly in long-term classes). Three long-term undertakings wrote 99% of total premiums attributable to risks in Malta. In the general sector concentrations increased due to increases in market share of the largest insurer.

**Figures 3.1.2.1 largest 3 long-term and 3 largest non-life business undertakings as % gross written premiums**



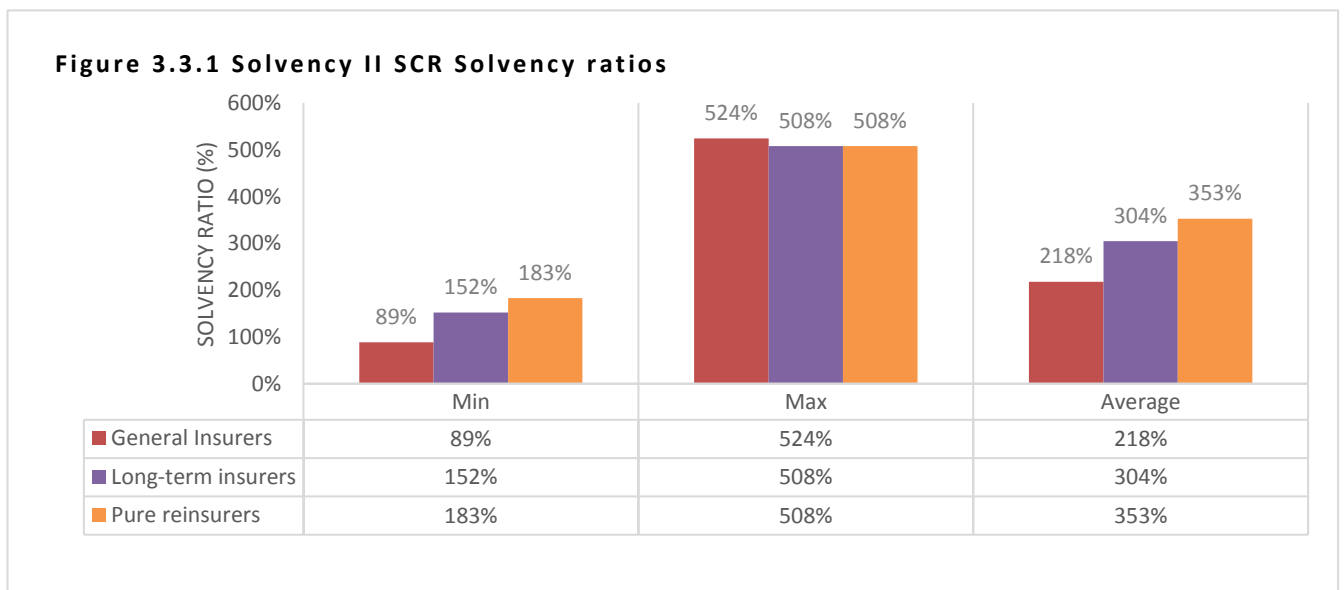
## 3.2 Asset Allocation

Assets referred to in this section relate to financial assets only. The chart below shows the asset allocation for all undertakings for 2016:



Other assets are mainly investments in collective investment vehicles, participating interests and other financial investments with ceding enterprises.

## 3.3 Capital Adequacy of Undertakings - Solvency II Solvency ratios



One insurer was on transitional measures (i.e. SCR coverage less than 100% as at 31.12.2016). Full SCR cover was restored subsequently in line with Solvency II requirements.

## 4. General Business

### 4.1 Gross Written Premiums

For Direct Insurers the main lines of business relate to 29% motor vehicle (liability and other), 26% miscellaneous financial loss and 24% fire and other damage to property. Smaller contributions are made by more minor classes like medical expense, general liability, assistance and workers compensation underwriting classes.

For pure reinsurers, underwriting activities are dominated by 51% medical expense, 35% fire and other damage to property and 10% motor vehicle liability insurance. Other minor classes are written.

#### 4.1.1 Gross Premium Written by Business Class

The table shows lines of business written in Malta in 2016 for Direct insurers and Pure Reinsurers:

**Table 4.1.1.1 Gross written premiums for 2016 by business class - proportional business**

| Proportional € m                            | Direct insurers | Pure Reinsurers | Total |
|---|-----------------|-----------------|-------|
| Medical expense insurance                   | 50              | 600             | 650   |
| Income protection insurance                 | 38              | 8               | 46    |
| Workers' compensation insurance             | 10              | 0               | 10    |
| Motor vehicle liability insurance           | 272             | 114             | 386   |
| Other motor insurance                       | 120             | 6               | 126   |
| Marine, aviation and transport insurance    | 31              | 6               | 37    |
| Fire and other damage to property insurance | 332             | 406             | 738   |
| General liability insurance                 | 122             | 32              | 154   |
| Credit and suretyship insurance             | 5               | 0               | 5     |
| Legal expenses insurance                    | 6               | 0               | 6     |
| Assistance                                  | 23              | 0               | 23    |
| Miscellaneous financial loss                | 352             | 4               | 356   |
| Income protection insurance                 | 1,361           | 1,177           | 2,538 |

**Table 4.1.1.2 Gross written premiums for 2016 by business class - non proportional business**

| Non proportional € m        | Direct insurers | Pure Reinsurers | Total |
|-----------------------------|-----------------|-----------------|-------|
| Health                      | 0               | 2               | 2     |
| Casualty                    | 23              | 0               | 23    |
| Marine, aviation, transport | 0               | 0               | 0     |
| Property                    | 2               | 14              | 15    |
| Grand Total                 | 25              | 16              | 41    |

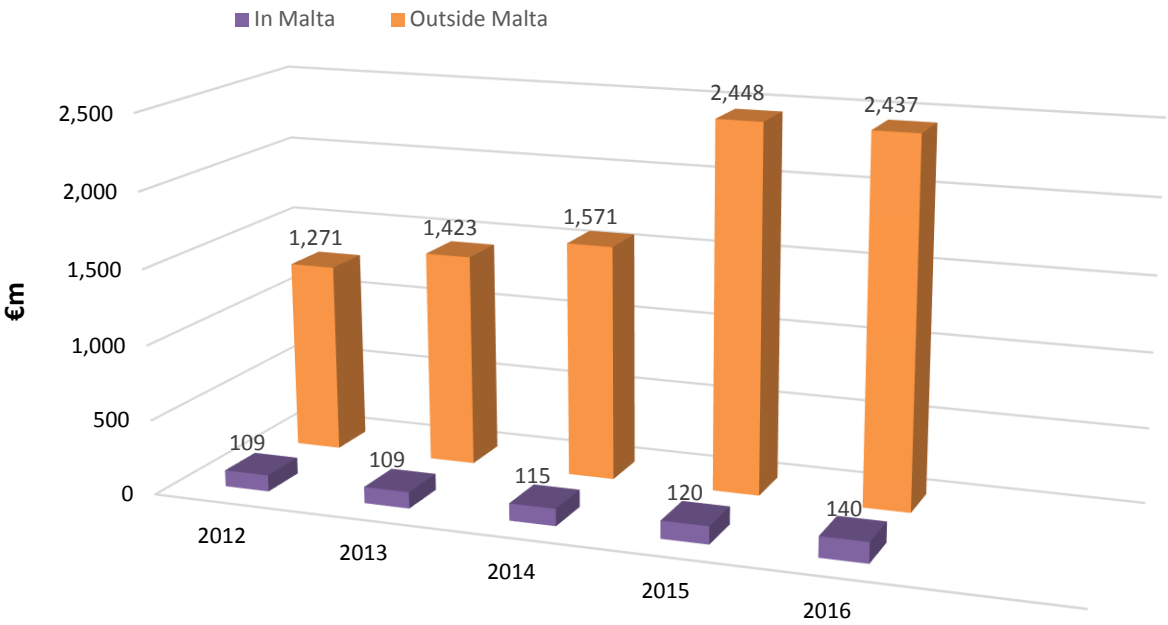
Solvency II introduced new line of business classifications, so no direct previous year comparatives are available. These will be provided in future years.



4.1.2 Gross Premium Written (risks in and outside Malta totals)

Risks written outside Malta substantially support underwriting experience:

Figure 4.1.2.1 GPW for risks inside and outside Malta



### 4.1.3 Gross Premium Written: risks in and outside Malta (business class)

Figure 4.1.3.1 Risks situated in Malta by business class

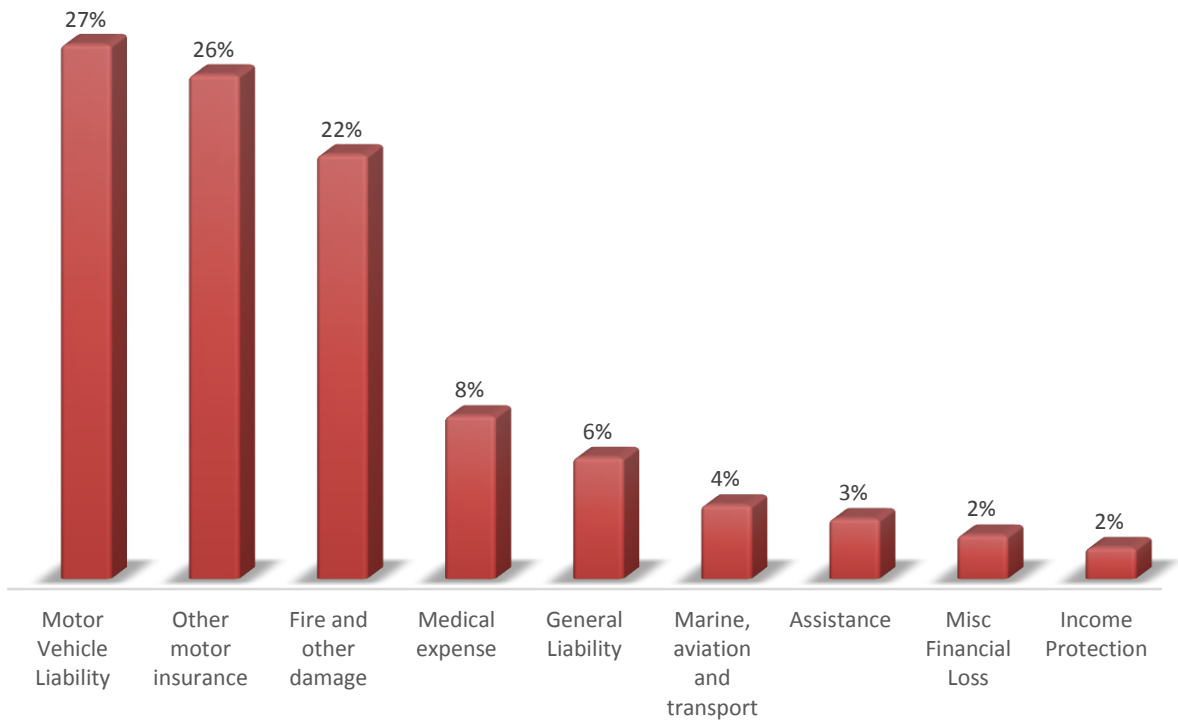
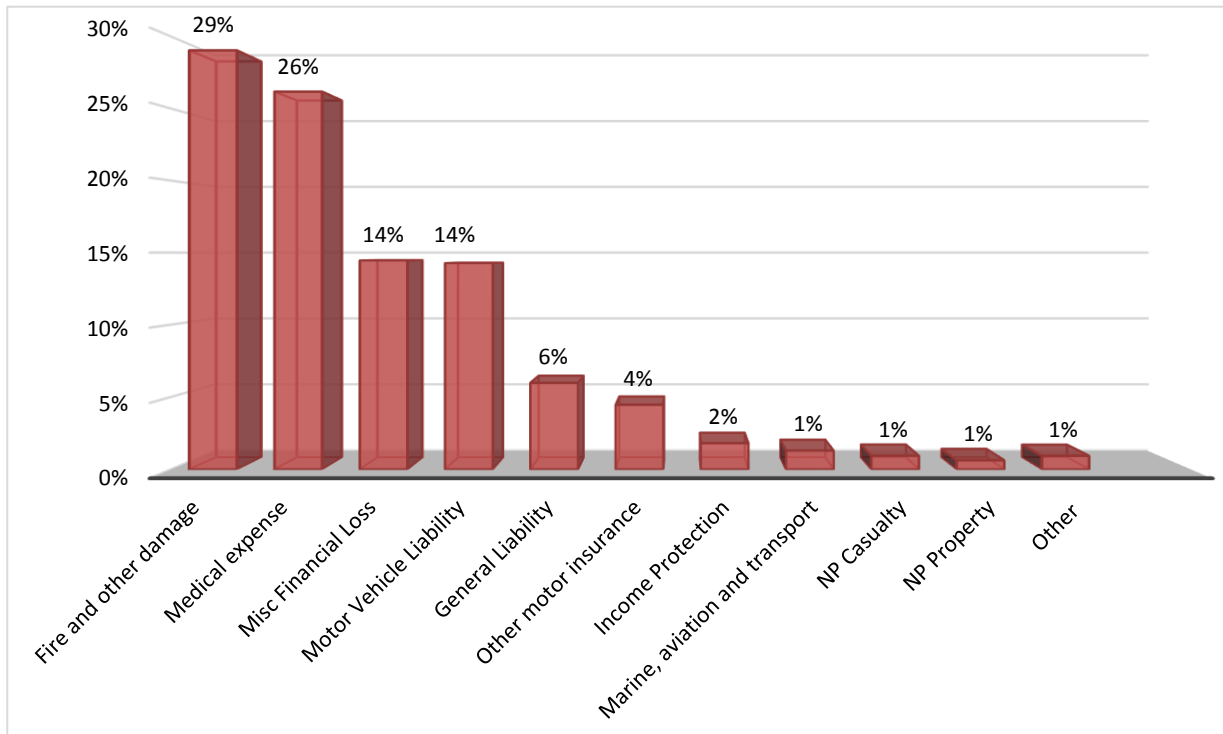


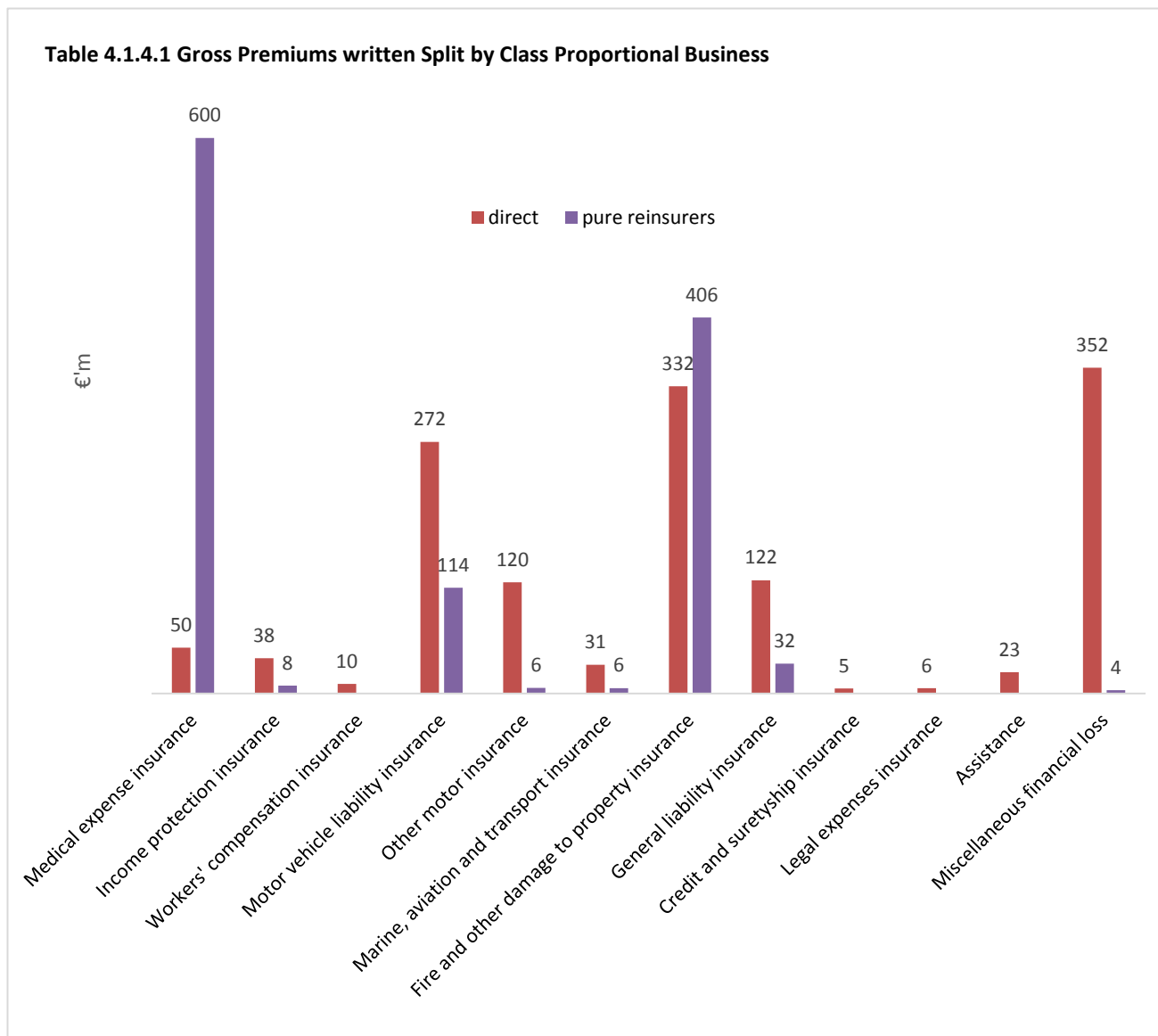
Figure 4.1.3.2 Risks situated outside of Malta by business class



This data is based on Solvency II lines of business classifications, so prior year comparatives will be available in future years.

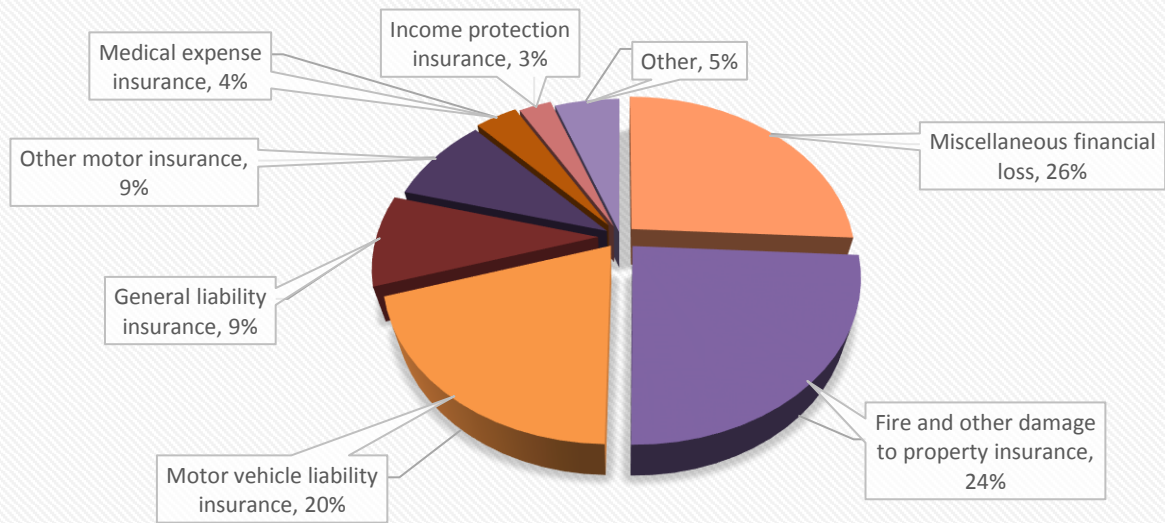
#### 4.1.4 Comparison of Gross premiums written between direct insurers and pure reinsurers

The chart below shows the breakdown of the gross premiums written between direct insurers and pure reinsurers in 2016 for each material line of business:

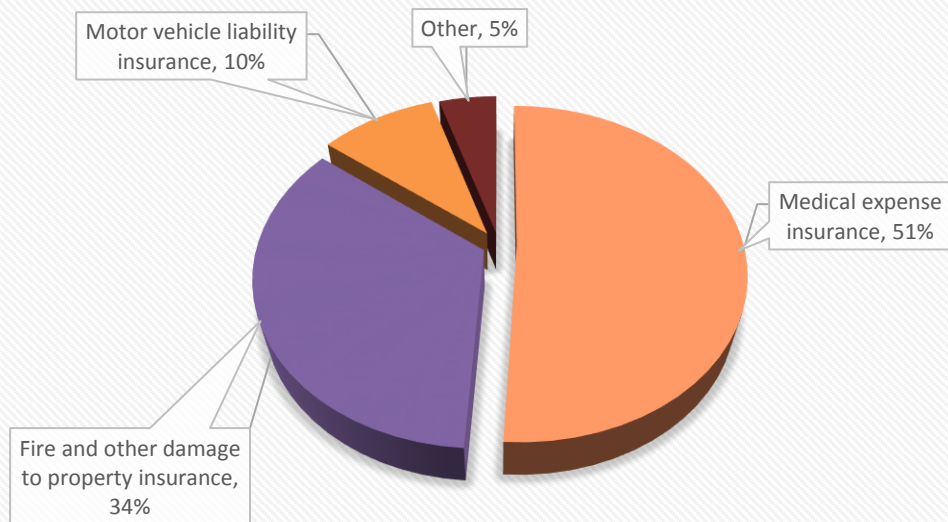


The dominant class for pure reinsurers is medical expense reinsurance. A relatively small amount of non-proportional business is also written.

**Table 4.1.4.2 Gross Premiums Written by Direct Insurers 2016**



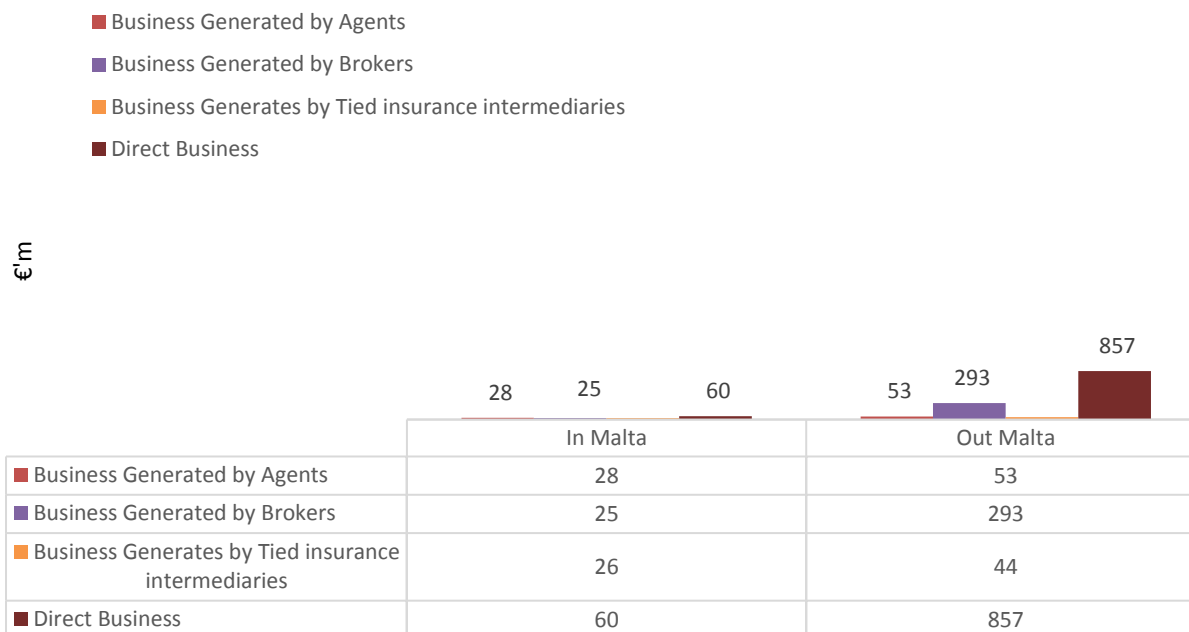
**Table 4.1.4.3 Gross Premium Written by Pure Reinsurers 2016**



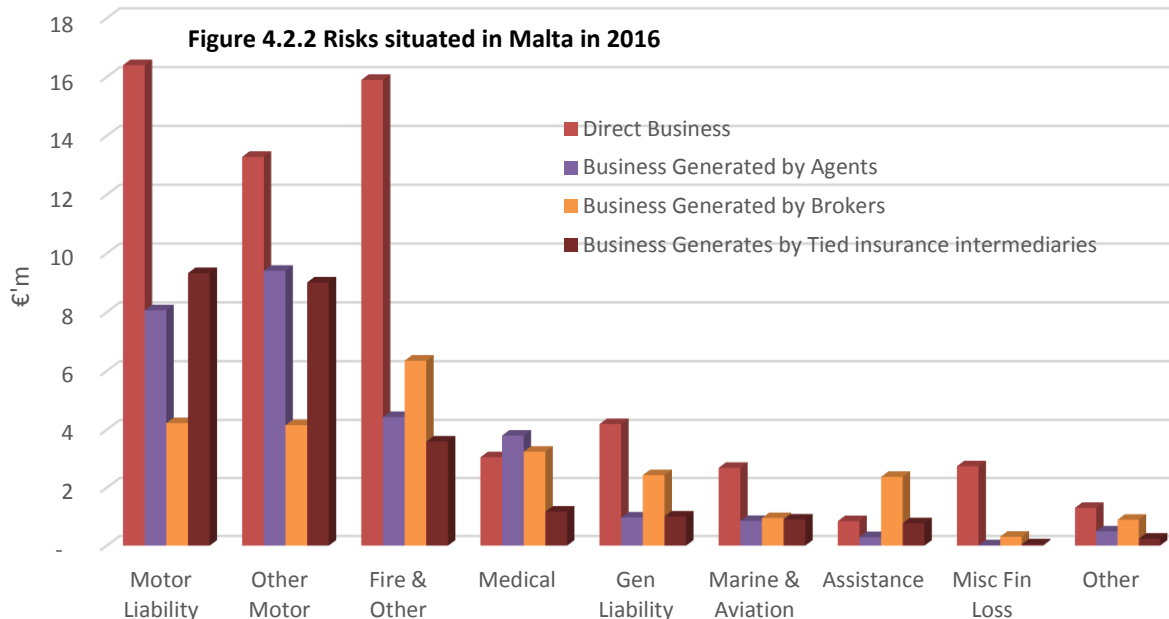
## 4.2 Sources of Business

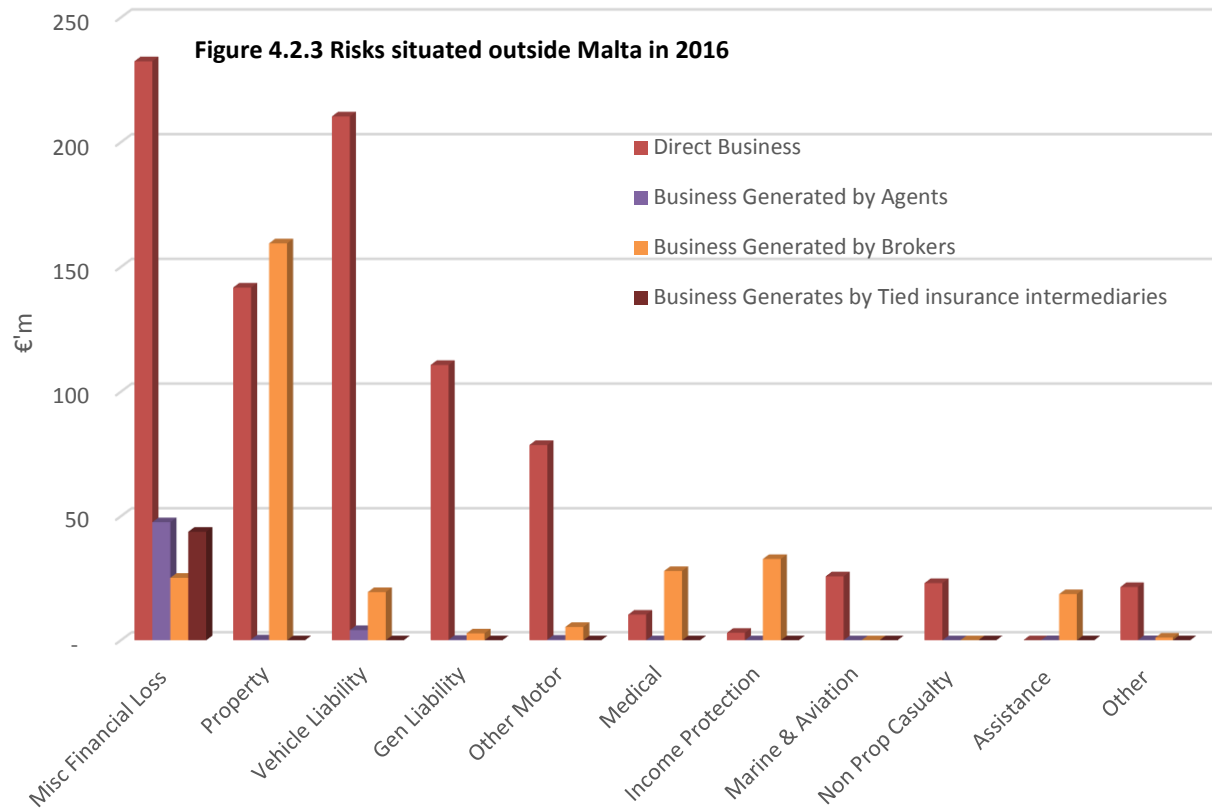
In 2016, the general business sector for risks situated in and outside Malta continued to be mainly directly generated. The business directly sourced by the undertakings accounted for 43% (€60m) of the business for risks situated in Malta and 69% (€857m) of the business for risks situated outside Malta.

**Figure 4.2.1 Risks situated in or out of Malta by Distribution Channel**



**Figure 4.2.2 Risks situated in Malta in 2016**



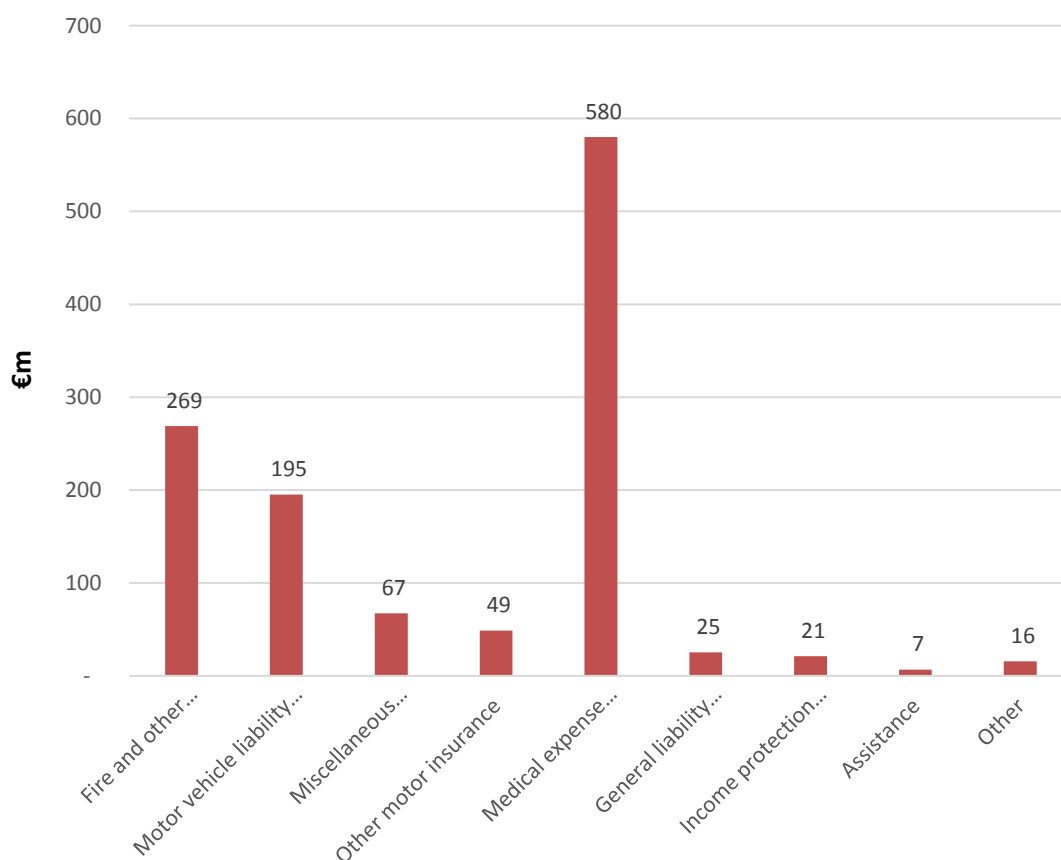


## 4.3 Claims

### 4.3.1 Net Paid Claims

The net claims paid increased to €1,229m (2016) from €998m (2015). The dominant line of business in terms of claims is medical expense (€580m), followed by fire and other damage to property (€269m) and motor vehicle liability (€195m). Lines of business are based on Solvency II classifications so direct comparisons with previous year lines of business are unavailable. Suitable comparisons will be made available in future years.

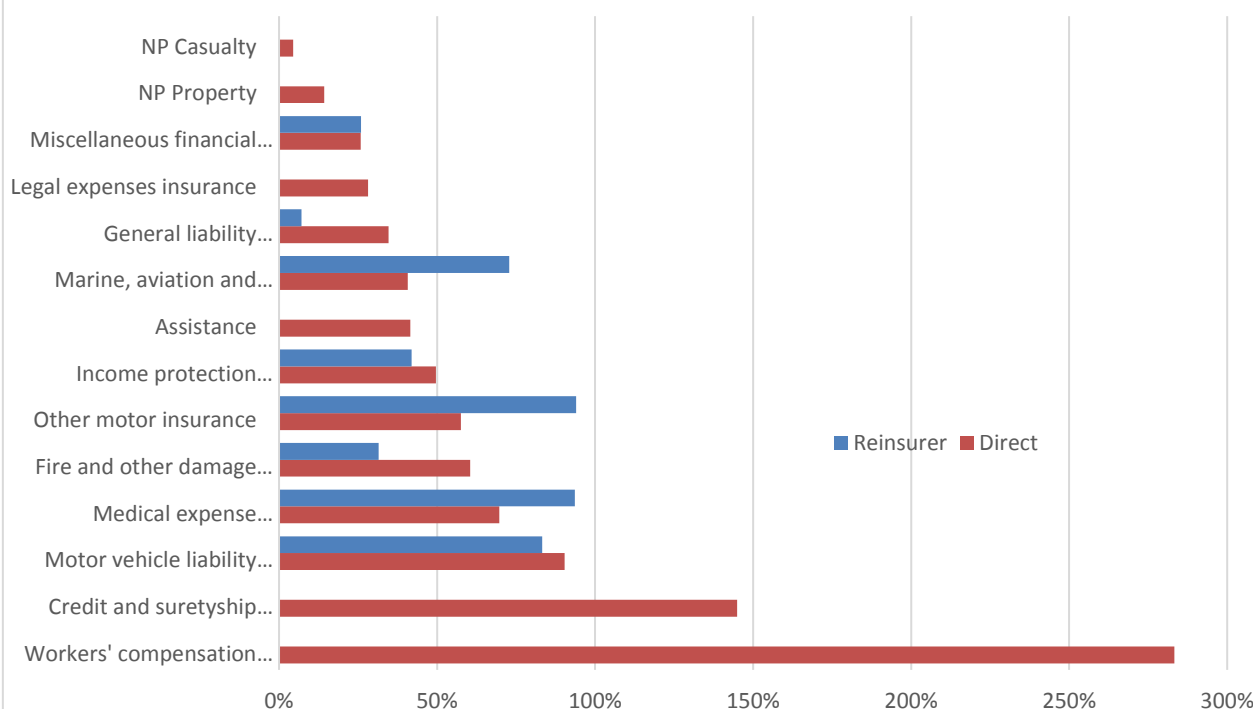
**Figure 4.3.1.1 Net claims paid for all undertakings 2016**



### 4.3.2 Net Payout Ratio

The net payout ratio was 46% in 2015. In 2016 this increased to 60% (due to increases in net claims paid as premiums earned have remained broadly stable). In line with other data figures are based on Solvency II line of business classifications rather than previous reporting metrics so year on year comparisons will be made available in future years.

**Figure 4.3.2.1 Net payout ratio for all undertakings 2016**



It can be seen that for motor business claims ratios for direct insurers were more favourable than for reinsurers. Ratios for workers compensation have been distorted by large claims relative to premiums written.

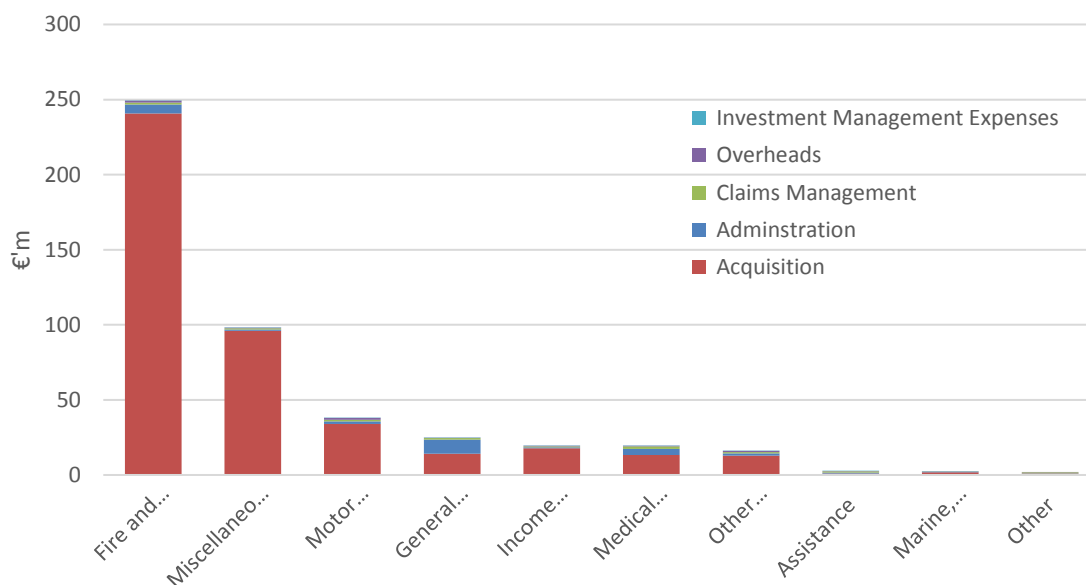
Ratio for direct insurers and pure reinsurers tend to be correlated as many reinsurers operate on a proportional reinsurance basis.



### 4.3.3 Analysis of Expenses

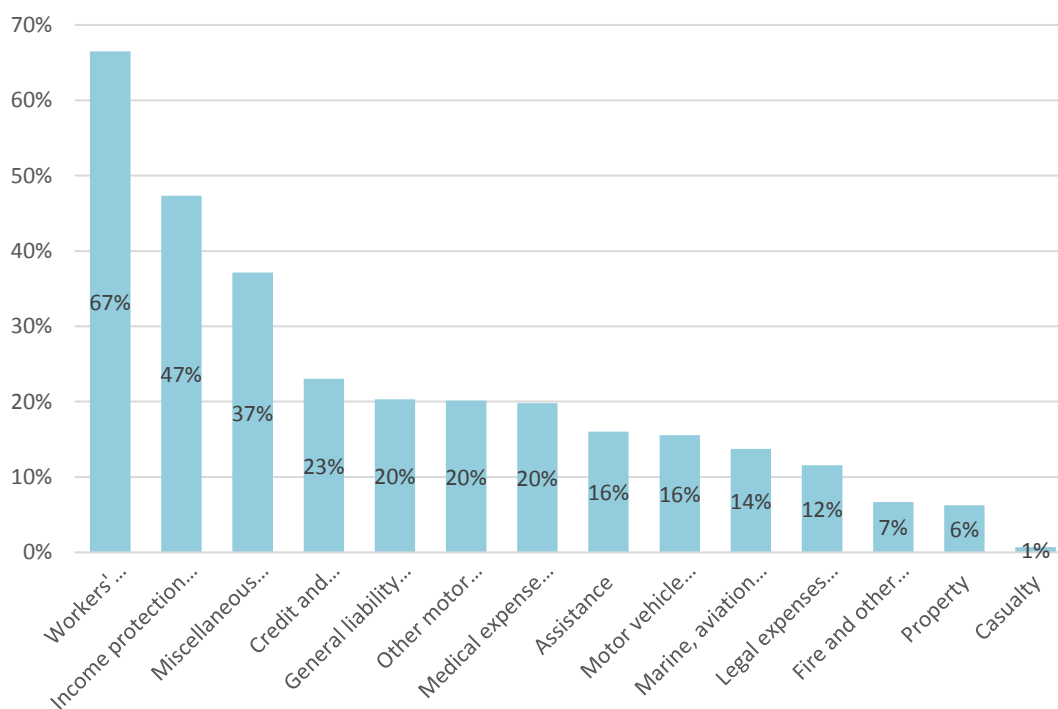
As would be expected the largest driver of expenses is acquisition commission for most material lines of business (brokerage, commission and other up-front expenses). The second most important driver is claims management expenses followed by administration and other costs. As before year on year comparisons will become available as more data prepared on a Solvency II basis becomes available.

**Figure 4.3.3.1 Analysis of Expenses - Direct insurers and Pure Reinsurers**

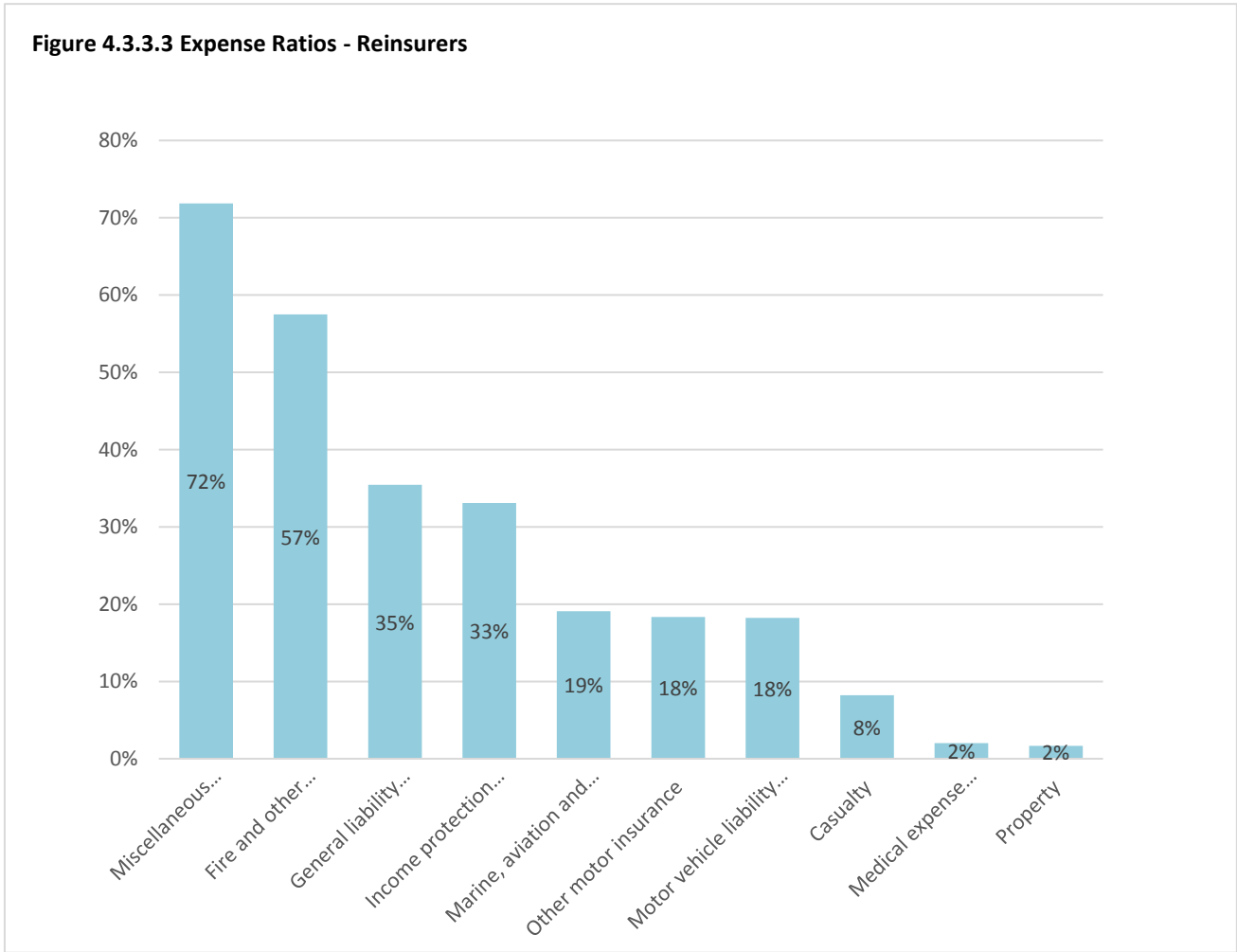


Expense ratios for direct insurers are as captured in the table below.

**Figure 4.3.3.2 Expense Ratios - Direct insurers**



Expense ratios for Pure reinsurers are also shown:

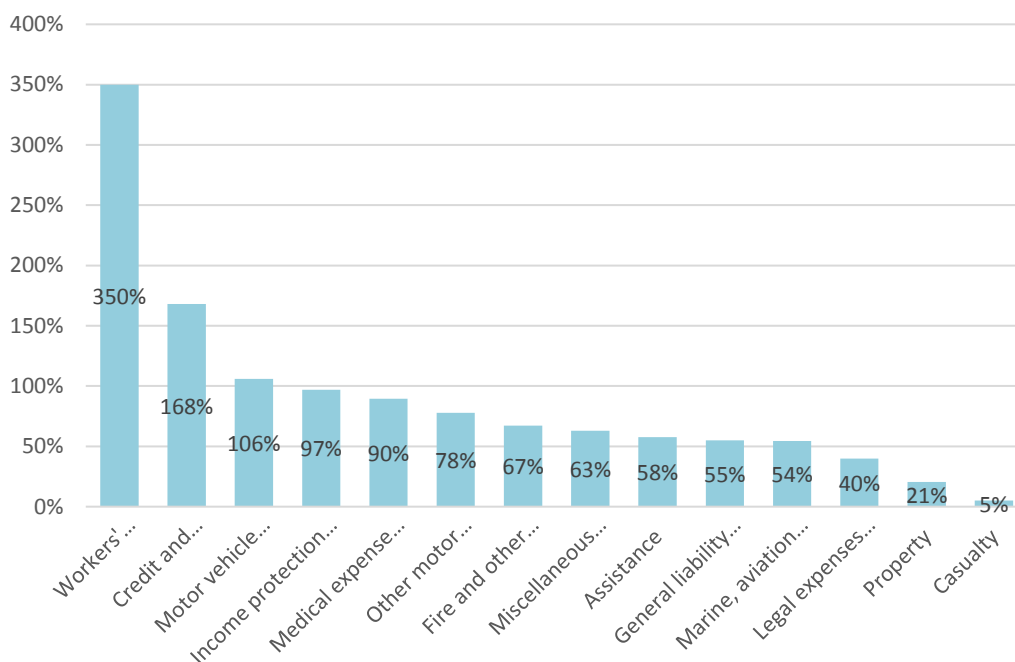


All ratios are based on earned premiums and earned expenses.

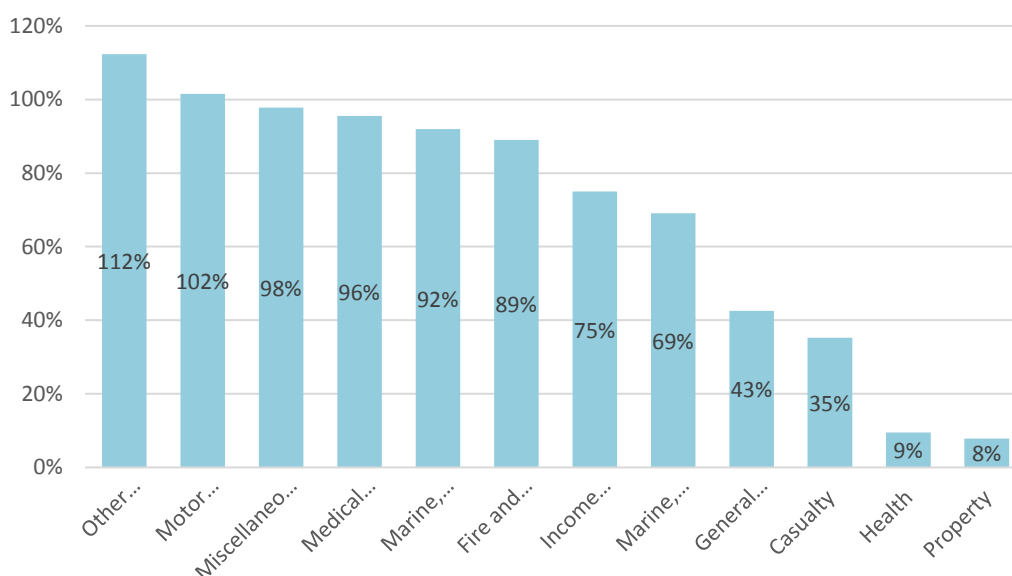
### 4.3.4 Combined Ratios

Combined ratios represent the sum of net claims and expense ratios. Consistent with graphs previously illustrated, Workers Compensation has the least favourable combined ratio. In line with industry benchmarks combined ratios for motor also exceeded 100% so 2016 representing another year of unfavourable underwriting conditions.

**Figure 4.3.4.1 Combined Ratios - Direct Insurers**



**Figure 4.3.4.2 Combined Ratios - Pure Reinsurers**

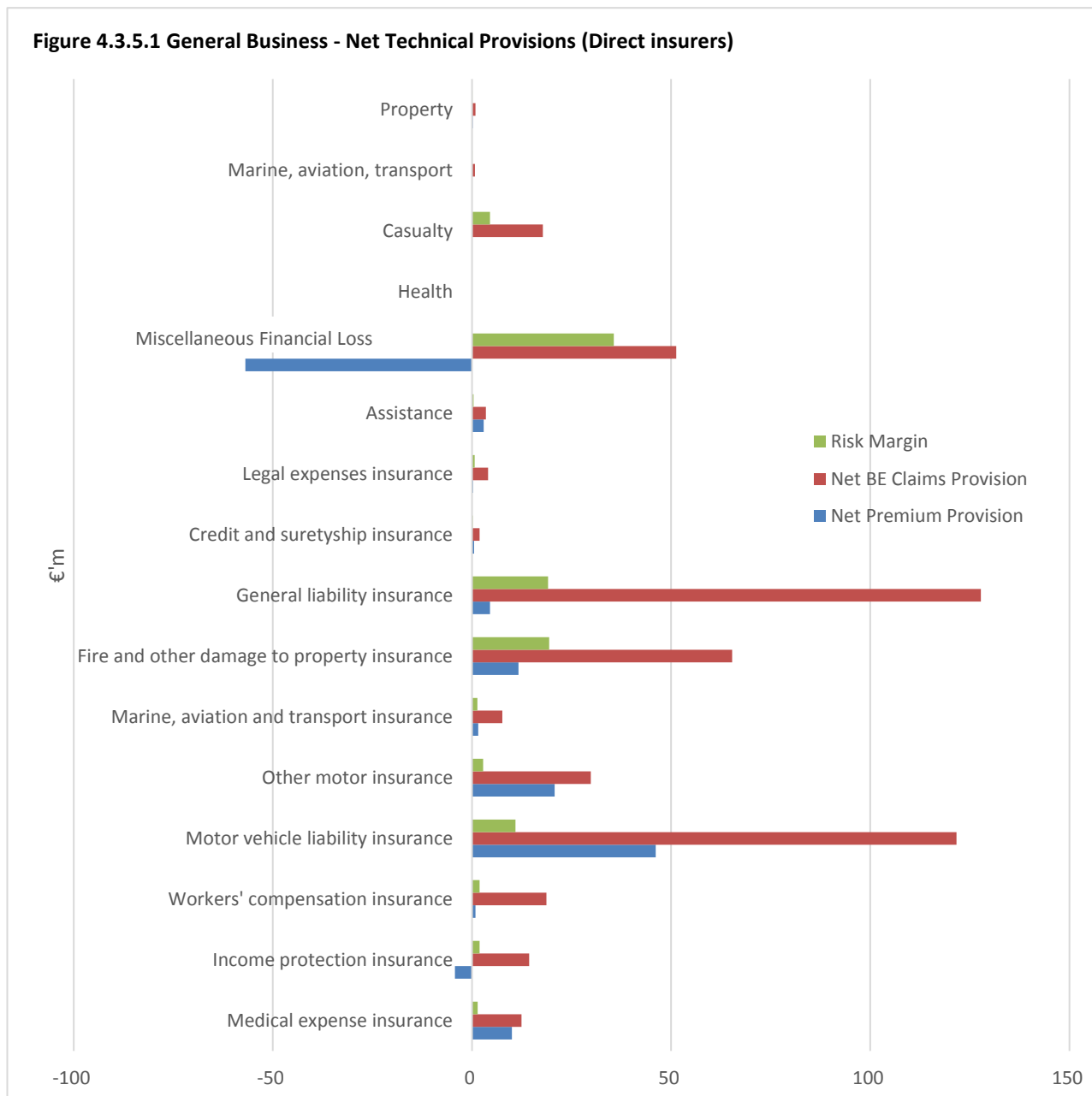


Again the experience of pure reinsurers exhibited a degree of consistency with direct writers - for example in relation to the motor underwriting class.

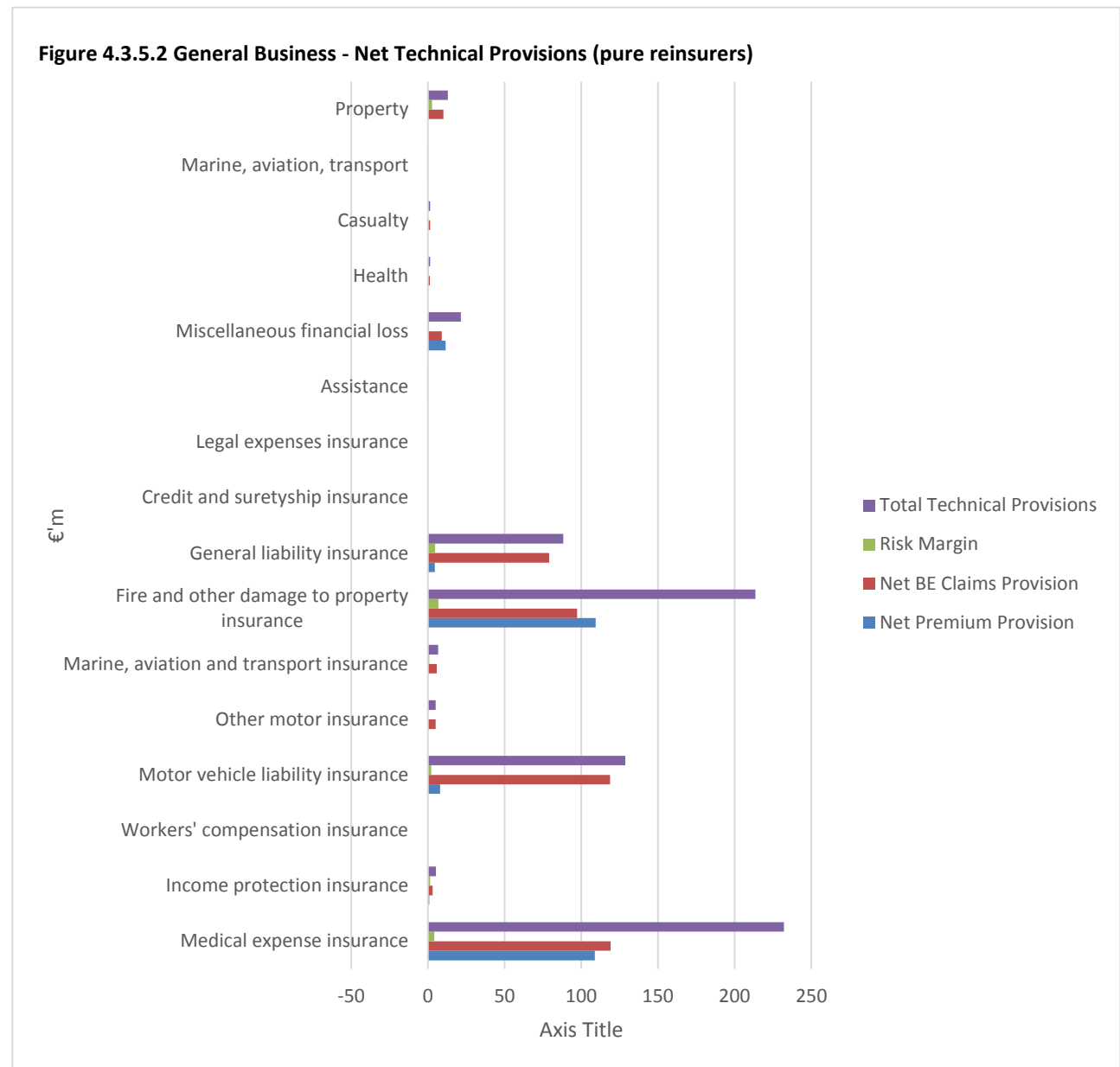
### 4.3.5 Technical Provisions

Figure 4.3.5.1 shows net technical provisions and their materiality. For long-tailed classes outstanding claims reserves tend to dominate. For more profitable classes, the premium provision is negative and tends to be negatively correlated with combined ratios.

Figures for risk margin tend to be a small proportion of totals.



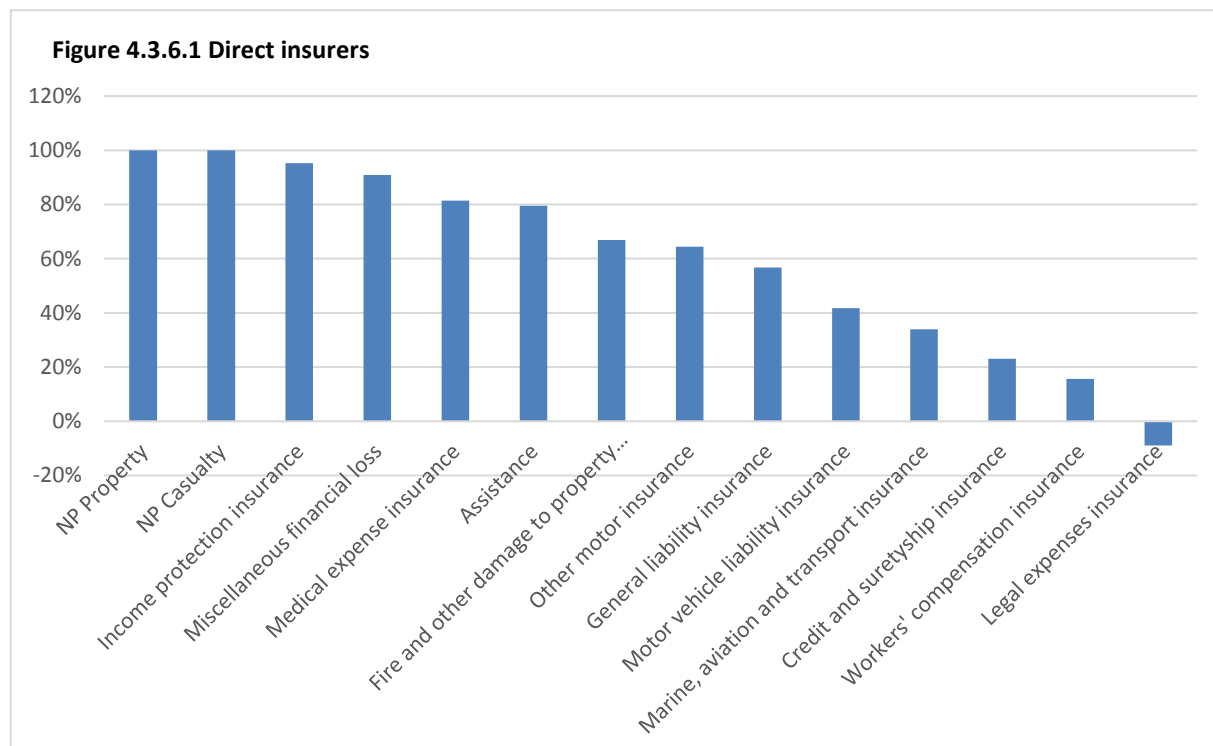
Outcomes for pure reinsurers are also shown:



As expected technical provisions for general liability, fire and other damage to property and medical expense insurance dominate.

### 4.3.6 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 general insurance business, the retention ratio is calculated using the net premium earned over gross premiums earned.



It is observed that for classes with more stable underwriting profile (e.g. income protection, miscellaneous financial loss and medical expenses) retentions tend to be higher.

## 5. Long-term business

### 5.1 Gross Premium Written

The gross written premiums in respect of the long-term business decreased from €1,275m in 2015 to €1,265m in 2016. Long-term business mostly relates to life reinsurance obligations with smaller amounts from other life insurance (protection business), insurance with-profits, linked and health.

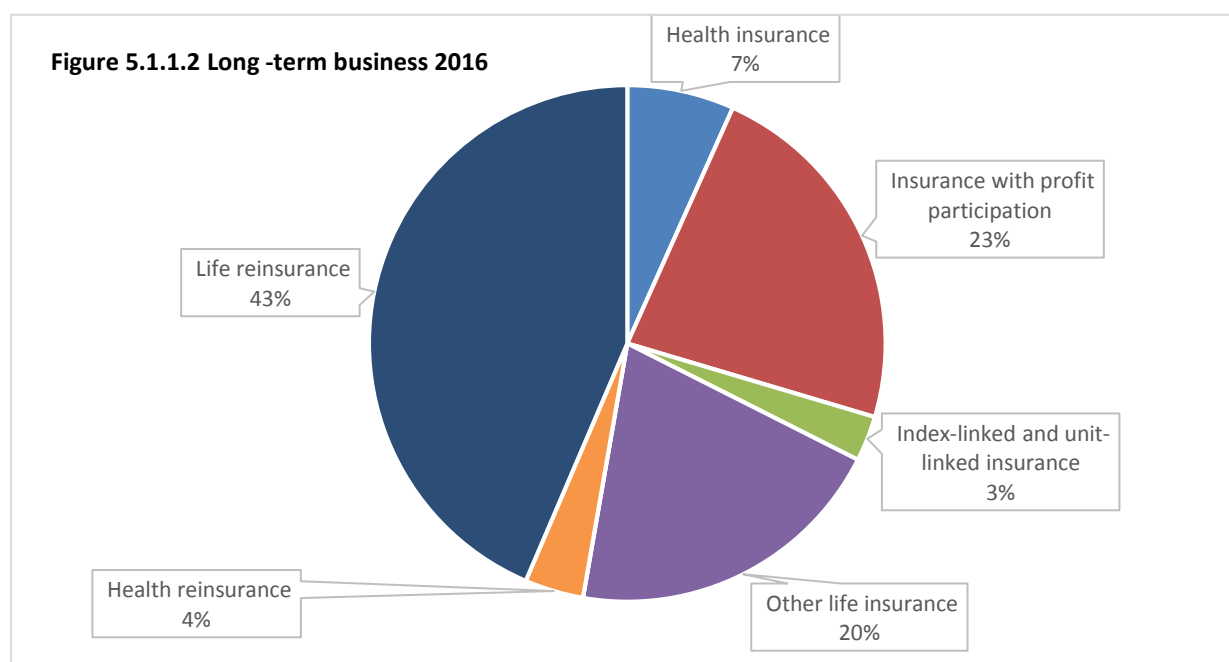
As with general business, Solvency II reporting data is used to compile statistics and line of business classifications differ from past years. Prior year comparatives will be added as new data is available.

#### 5.1.1 Gross Premium Written by Business Class

The table below gives 2016 information on gross premiums written. A graphical illustration is also included for ease of illustration:

Table 5.1.1.1 Gross Premiums written for 2016 all business

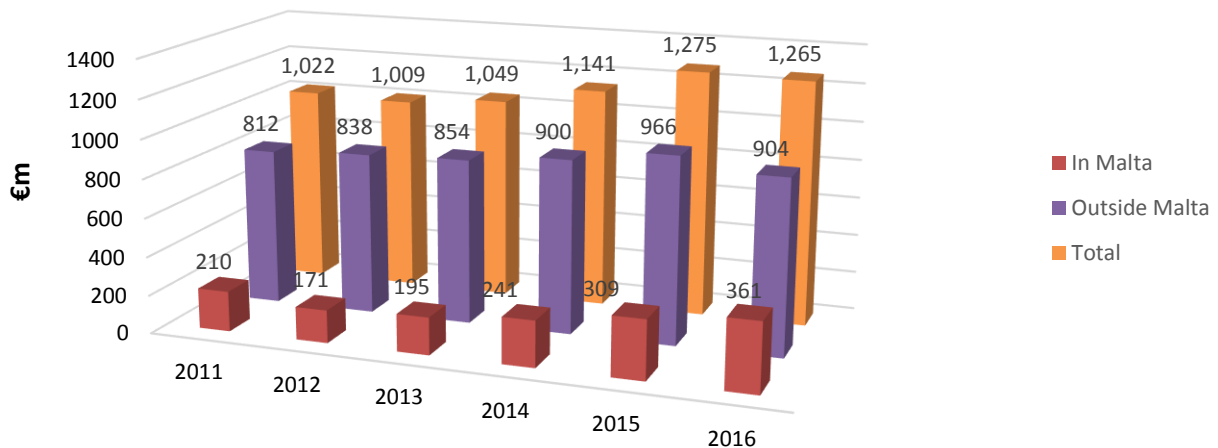
| Proportional € m                       | Total        | Direct insurers | Pure reinsurers |
|--|--------------|-----------------|-----------------|
| Health insurance                       | 85           | -               | -               |
| Insurance with profit participation    | 290          | -               | -               |
| Index-linked and unit-linked insurance | 36           | -               | -               |
| Other life insurance                   | 257          | -               | -               |
| Annuities                              | -            | -               | -               |
| Health reinsurance                     | 47           | -               | 47              |
| Life reinsurance                       | 551          | 23              | 528             |
| <b>Total</b>                           | <b>1,265</b> | <b>23</b>       | <b>575</b>      |



### 5.1.2 Gross Premiums Written (risks in Malta and outside Malta)

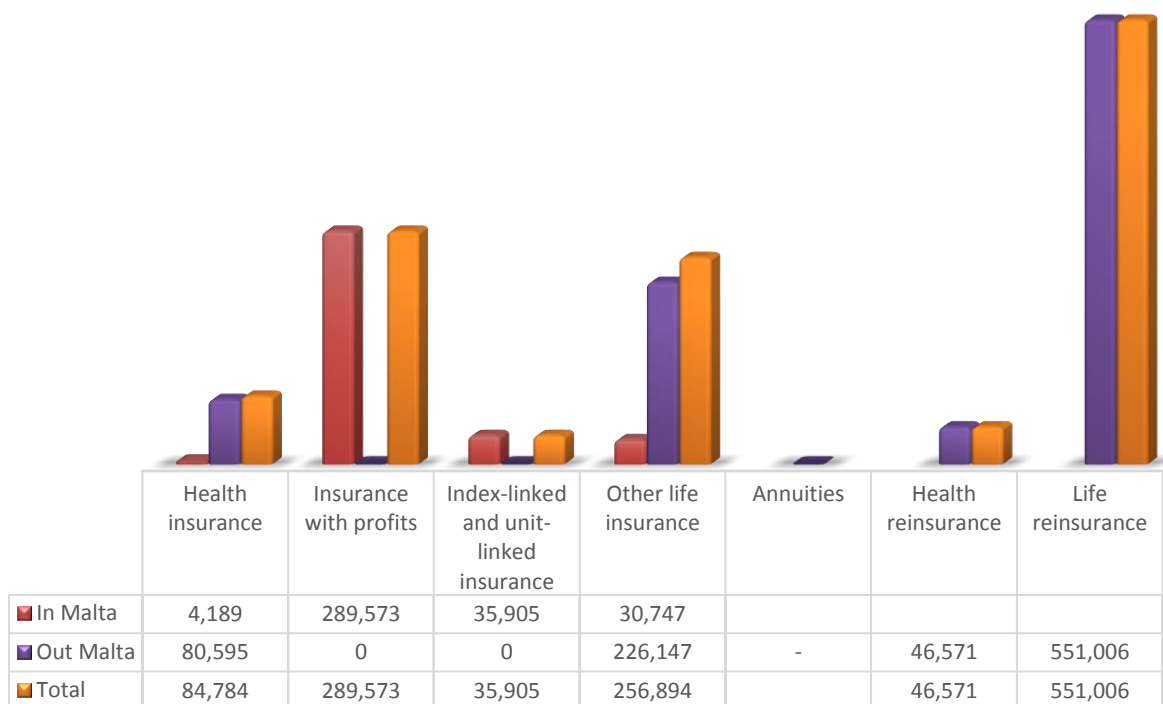
The chart below shows the breakdown of commitments situated in and outside of Malta for all undertakings.

**Figure 5.1.2.1 GPW for risks inside and outside Malta**



The graph below shows commitments in and out of Malta by underwriting class:

**Figure 5.1.2.2 Gross Premium: Risk in and Outside of Malta by class**

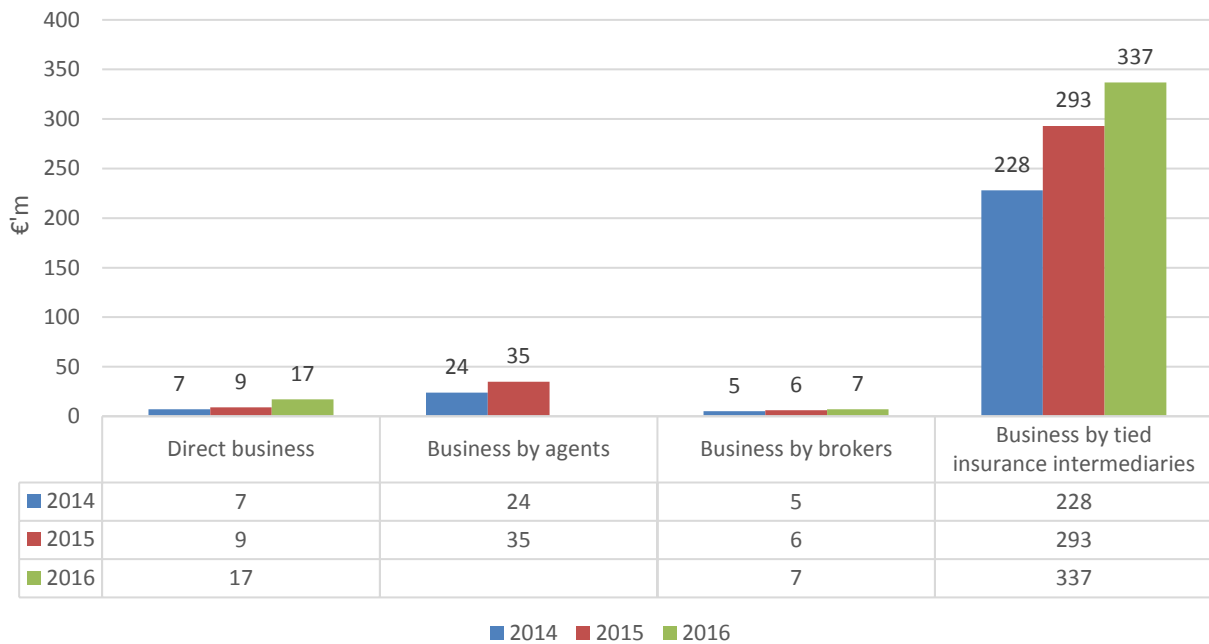




## 5.2 Sources of Business

New business written in the long-term business sector for commitments situated in Malta continues to be mainly generated by tied-insurance intermediaries. This accounted for 93% of business written in 2016 (a slight decline on 2015 where 95% or €293m was written). Small amounts of agent and direct business are written.

**Figure 5.2.1 Commitments in Malta by distribution channel**



**Figure 5.2.2 Commitments outside Malta by distribution channel**

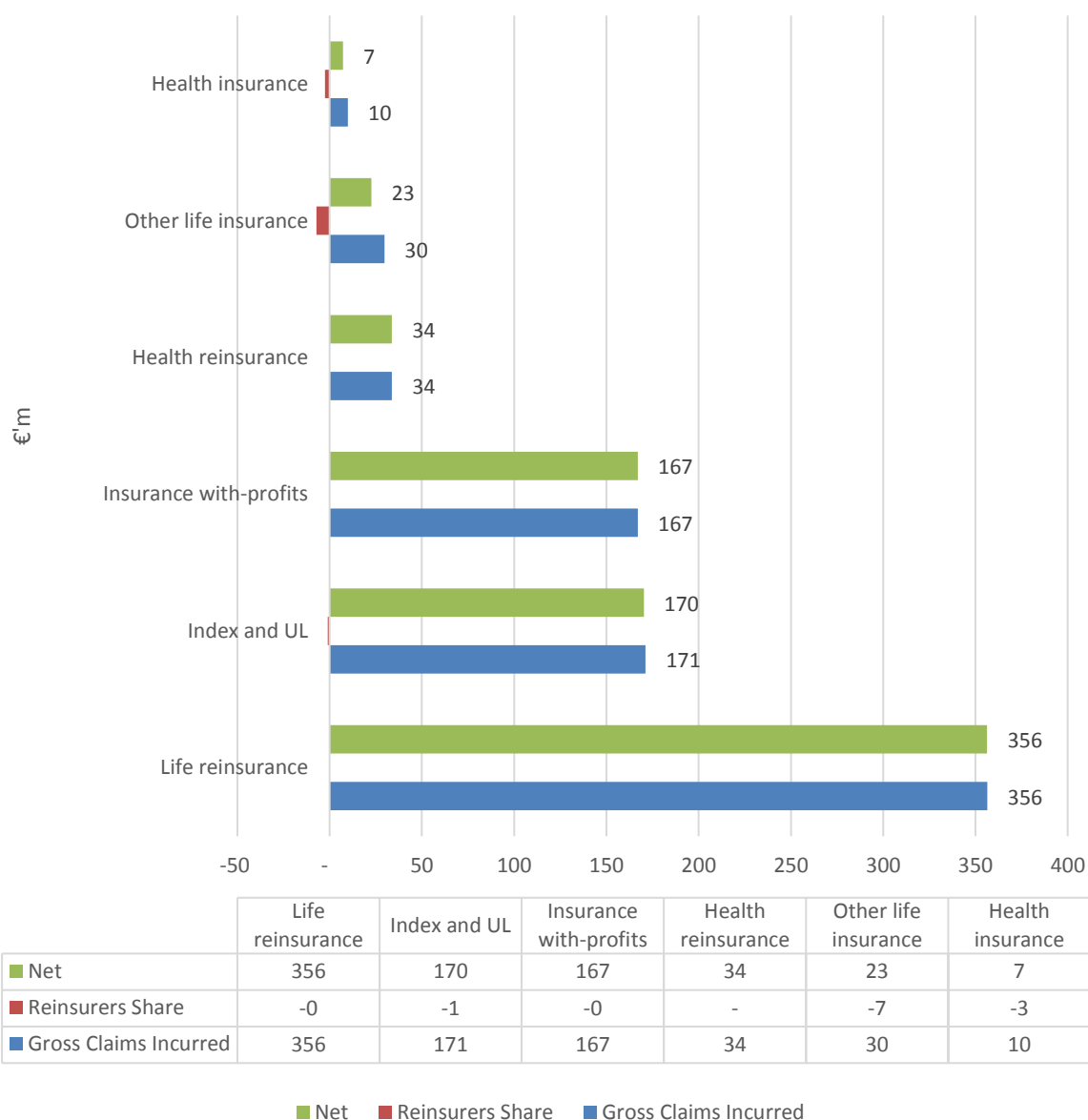


Risks outside Malta are dominated by reinsurers which source business directly.

## 5.3 Analysis of Claims

The main source of claims incurred for the long-term business in 2016 is related to the life reinsurance business, followed by claims (maturities and surrenders) on with-profits and savings written in Malta.

**Figure 5.3.1 Analysis of claims**



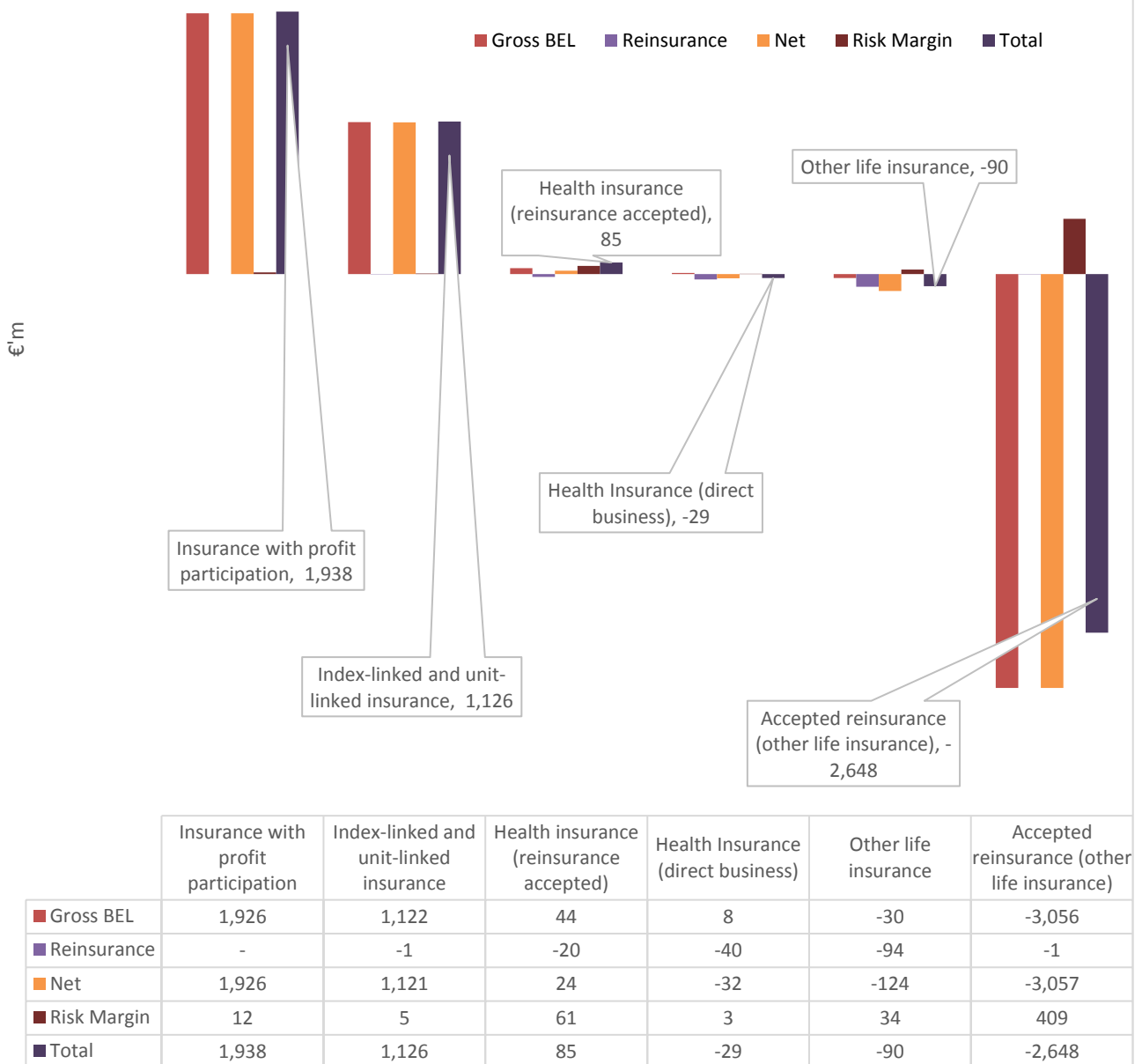
It is observed that life insurers operate low levels of reinsurance cession, mainly in respect of large or catastrophic life claims.

## 5.4 Technical Provisions

Technical provisions are dominated by reinsurance activities outside Malta (as these are long-term contracts insurers are allowed to capitalised future profits in best estimates) so premium provisions are negative. For with-profits and unit-linked, technical provisions relate to assets assigned to policyholder either in with-profits funds or unit-linked accounts.

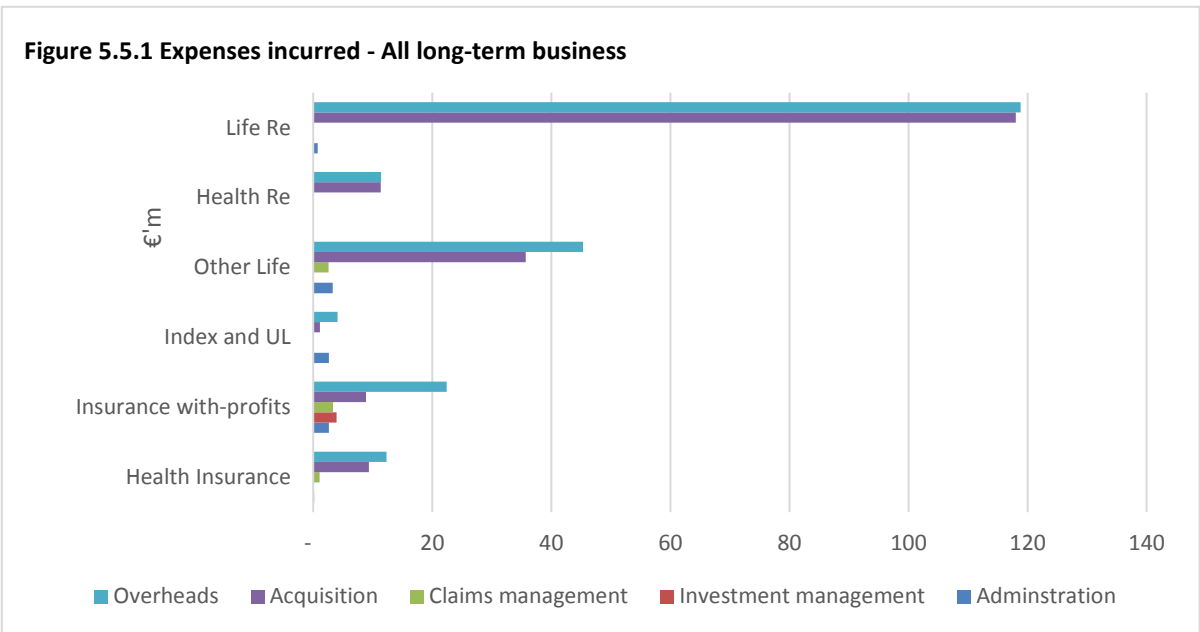
As no annuity business is written, figures for risk margin tend to be relatively small.

**Table 5.4.1. Technical provisions for long-term business**



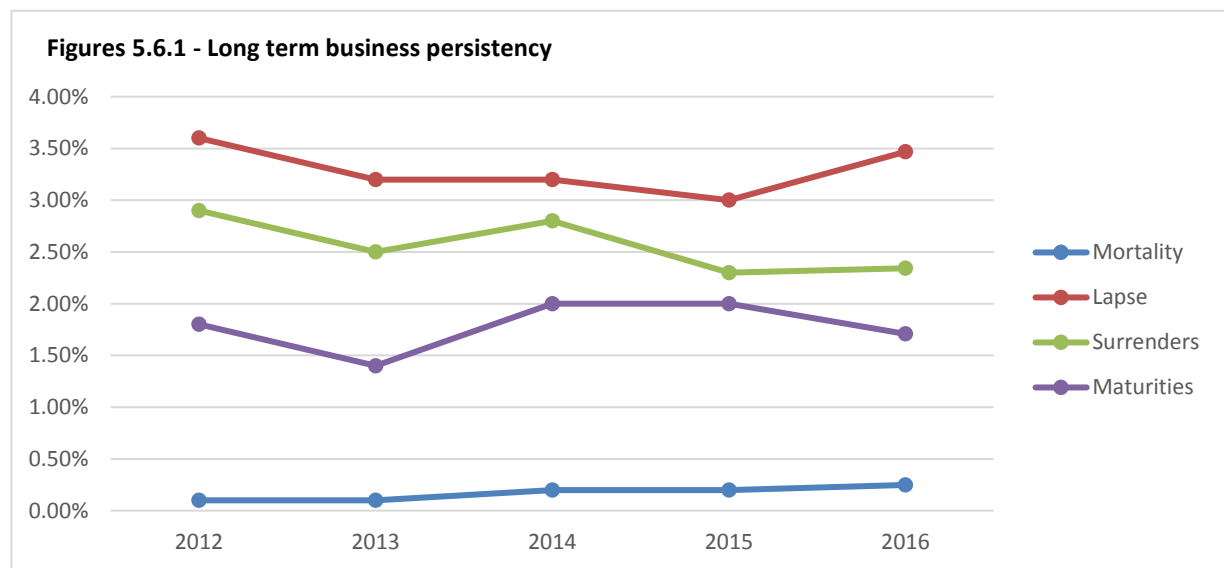
## 5.5 Analysis of Expenses

In contrast to general business, long-term insurers tend to incur higher overhead and administration expenses but smaller claims management costs, with the exception of certain classes like income protection and disability products.



## 5.6 Key financial indicators

The graph below shows mortality, lapse, surrender and maturity rates weighted by policy counts for all insurers (refinements to this data are possible, for example weighting by relative presences of the insurer in the market). These figures give limited insight into persistency experience in Malta.



It can be seen that there is no discernable trend since 2012.