

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

INSURANCE AND PENSIONS SUPERVISION UNIT

Insurance Statistical Review 2012

September 2013

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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 with head offices (HO) in Malta, as at 31st December 2012.

2. Scope of this report

This report provides:

- (1) An analysis of the insurance and reinsurance business in 2012;
- (2) Comparisons for up to 5 years from 2008 to 2012 (where data for all 5 years are not readily available, this is indicated in the relevant sections);
- (3) Explanations for any significant changes since 2011.

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.

3. Industry Overview

As at 31st December 2012, 58 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 2008 and 2012:

Table 3.1 Breakdown of authorised undertakings by nature of business from 2008 to 2012

Nature of business	2008	2009	2010	2011	2012
General	26	30	33	37	42
Life	8	8	8	8	7
Composite	3	3	2	2	2
Reinsurers	4	4	7	7	7
Total	41	45	50	54	58

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 2008 and 2012

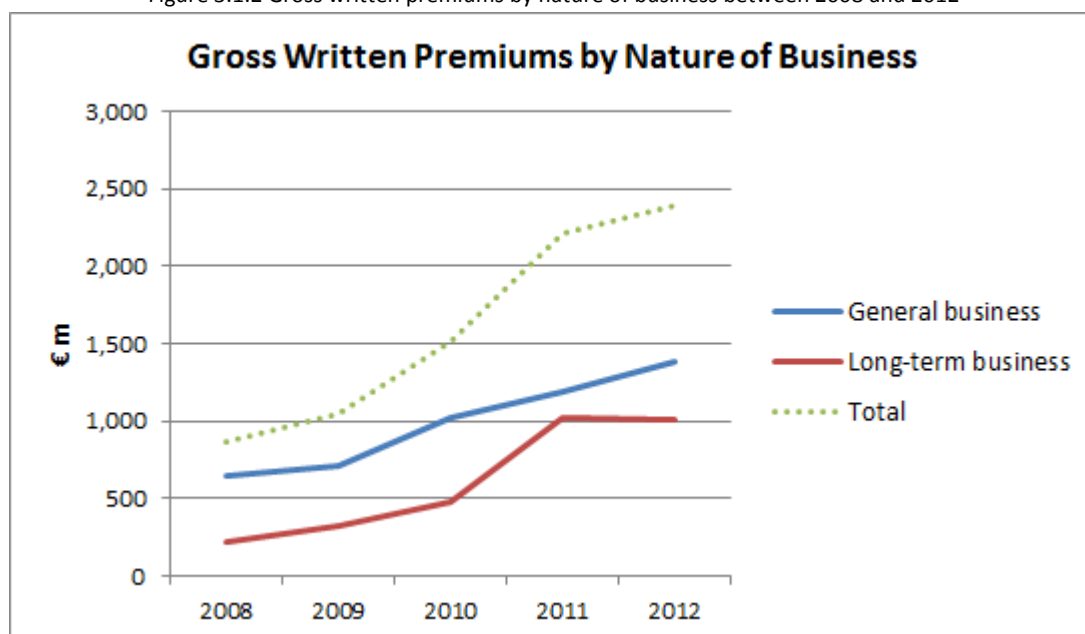
Nature of business	2008 (€m)	2009 (€m)	2010 (€m)	2011 (€m)	2012 (€m)	% Change 2011/2012
General business	650	716	1,026	1,185	1,379	16.4%
Long-term business	221	327	485	1,022	1,009	-1.3%
Total	871	1,044	1,511	2,208	2,388	8.2%

The total gross written premiums have increased by 8.2% (€180m) from €2,208m in 2011 to €2,388m in 2012. This is significantly lower than the increase observed between 2010 and 2011 of 46% (€697m) which was due to the significant growth in the long-term business during this period.

Whilst the gross written premiums continue to grow steadily for the general business, the growth observed in 2011 for the long-term business was not repeated in 2012. Instead, for 2012 we observed a decrease of 1.3% (€13m) in the volume of gross written premiums for the long-term business.

The trend of the gross written premiums between 2008 and 2012 is presented in the chart below:

Figure 3.1.2 Gross written premiums by nature of business between 2008 and 2012

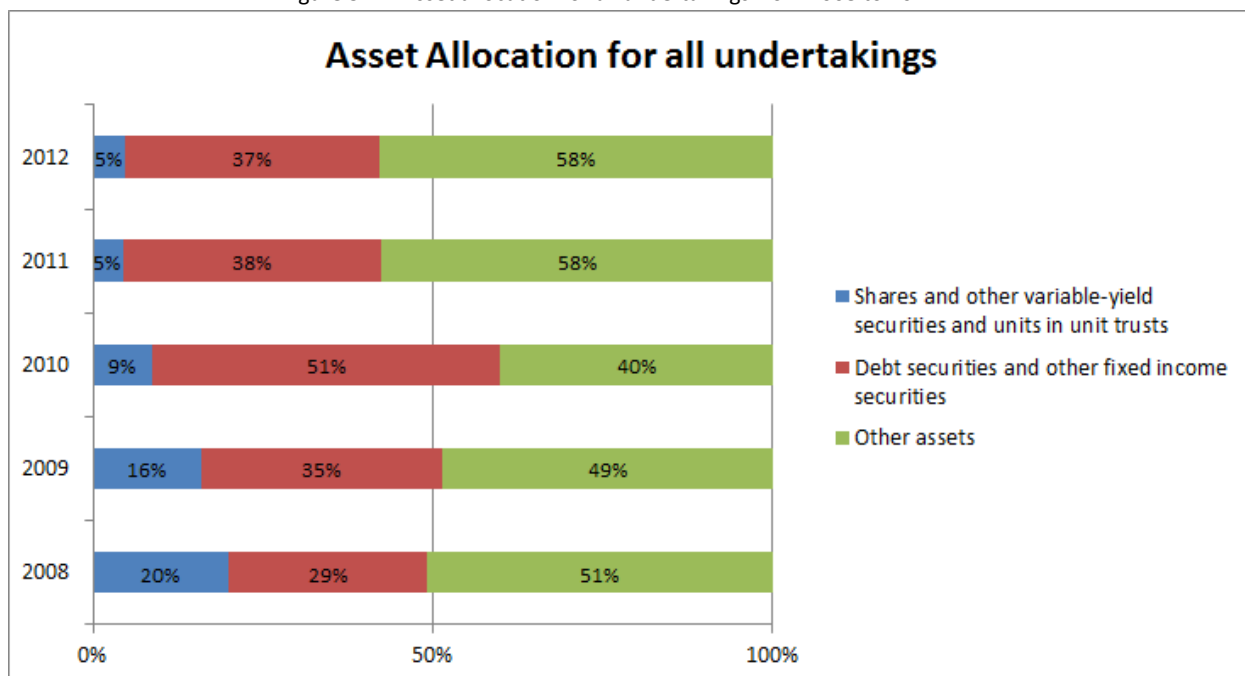


3.2. Asset Allocation

The assets referred to in this section relate to financial assets only.

The chart below shows the asset allocation for all undertakings from 2008 to 2012:

Figure 3.2.1 Asset allocation for all undertakings from 2008 to 2012



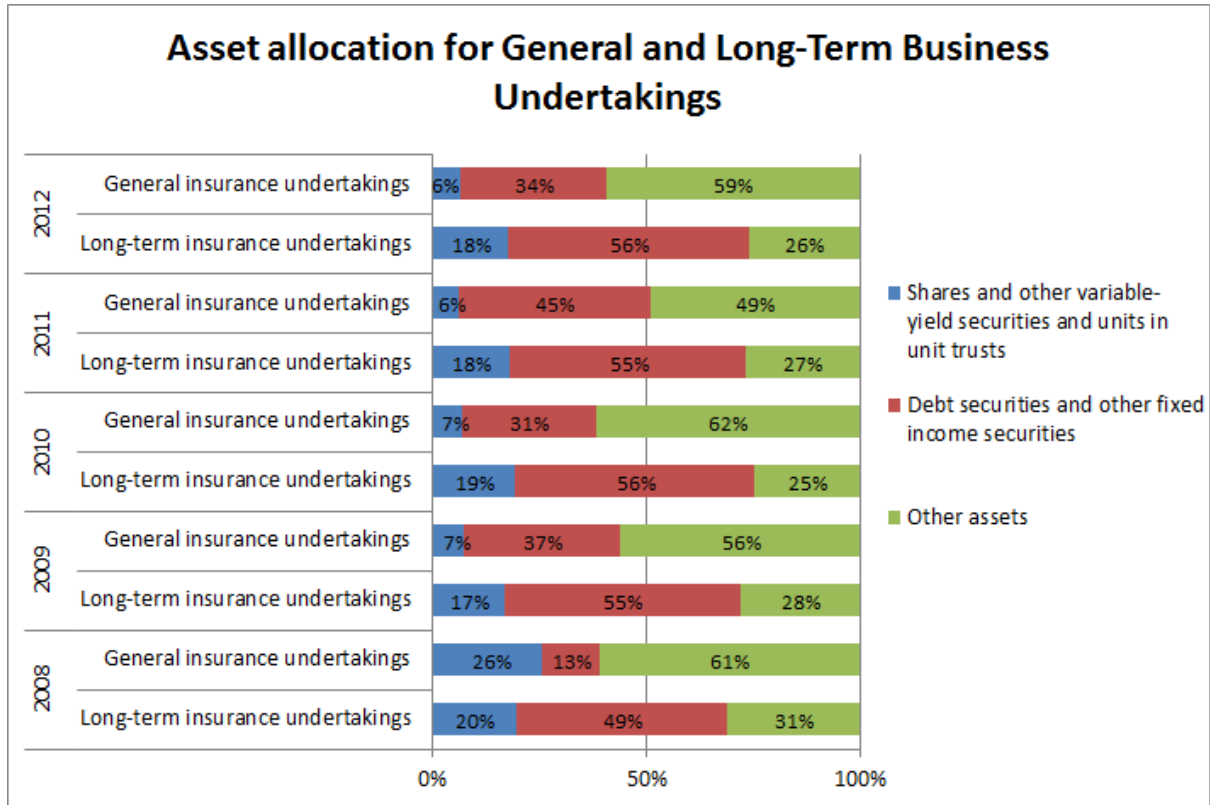
Note:

- (1) The other assets category consists mainly of investments in participating interests, deposits with credit institutions and other financial investments and deposits with ceding enterprises.
- (2) The asset allocation data for 2008 and 2009 does not include the assets allocation for pure reinsurance undertakings, as data was not readily available for 2008 and 2009.

The asset allocation between 2011 and 2012 for all undertakings as shown in the figure above has remained broadly unchanged.

For the general business undertakings, the asset allocation observed between 2011 and 2012 has changed. In 2012, we observed an increase in *other assets*. However, for the long-term business undertakings, the asset allocation has remained broadly similar between 2011 and 2012 as shown in the chart below:

Figure 3.2.2 Asset allocation for general and long-term business undertakings from 2008 to 2012

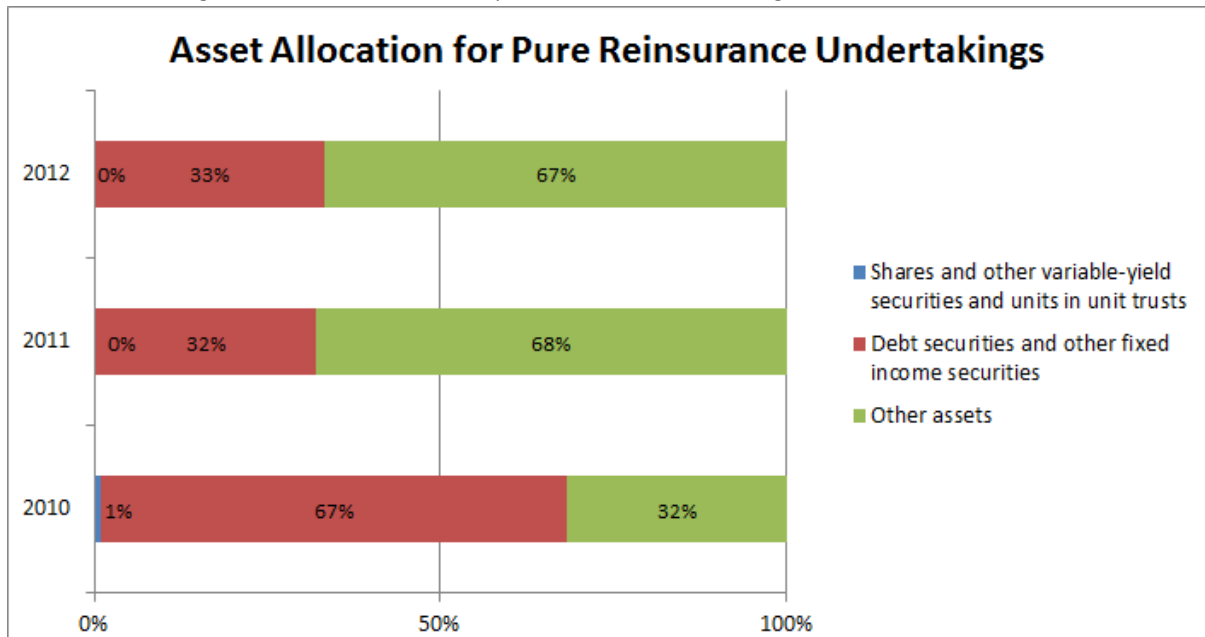


Notes:

(1) The asset allocation presented here excludes those of the pure reinsurance undertakings.

For the pure reinsurance undertakings, the asset allocations observed between 2011 and 2012 has remained broadly unchanged.

Figure 3.2.3 Asset allocation for pure reinsurance undertakings between 2010 and 2012



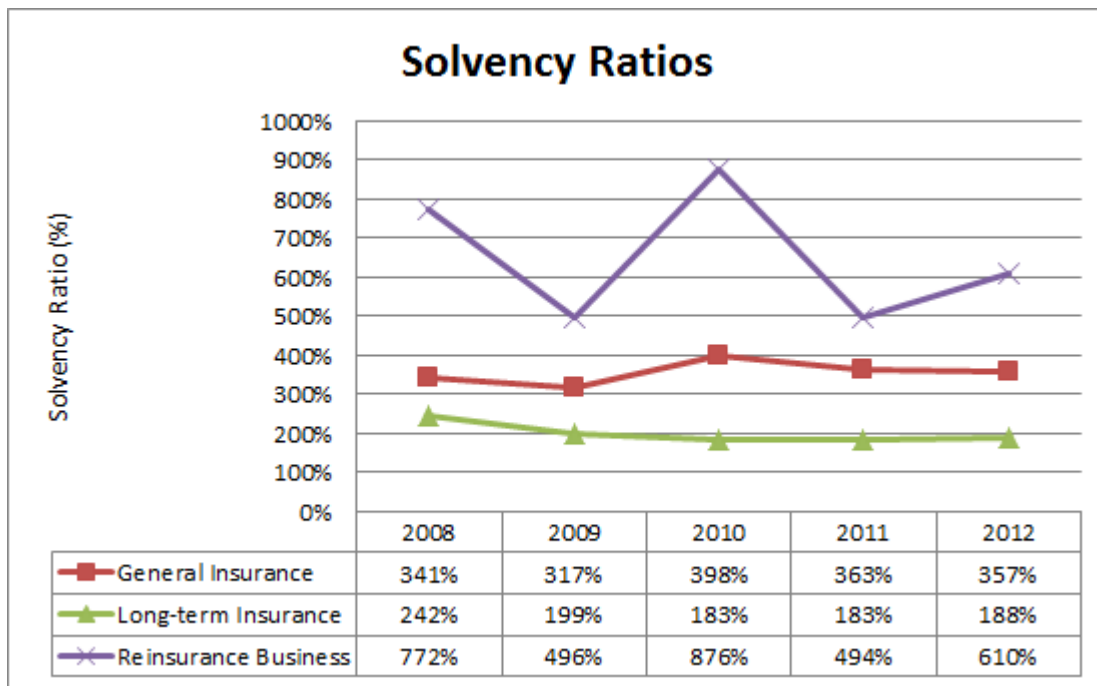
Notes:

- (1) The asset allocation data for pure reinsurance undertakings was not readily available for 2008 and 2009
- (2) For the pure reinsurance undertakings, there were an insignificant proportion of assets in shares and other variable-yield securities and units in unit trusts
- (3) For 2011 and 2012, the proportion of shares held by the pure reinsurance undertakings was very insignificant when compared to the total assets held

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 2008 to 2012 are shown in the chart below:

Figure 3.3.1 Solvency ratios for all undertakings from 2008 to 2012



The following changes in solvency ratios have been observed between 2011 and 2012:

- Substantial increase of 116% for pure reinsurance undertakings;
- Decrease of 6% for general insurance undertakings;
- Increase of 5% for long-term insurance undertakings.

The substantial increase in the solvency ratio observed for pure reinsurance undertakings is mainly due to the significant decrease in the amount of technical provisions as at the end of 2012.

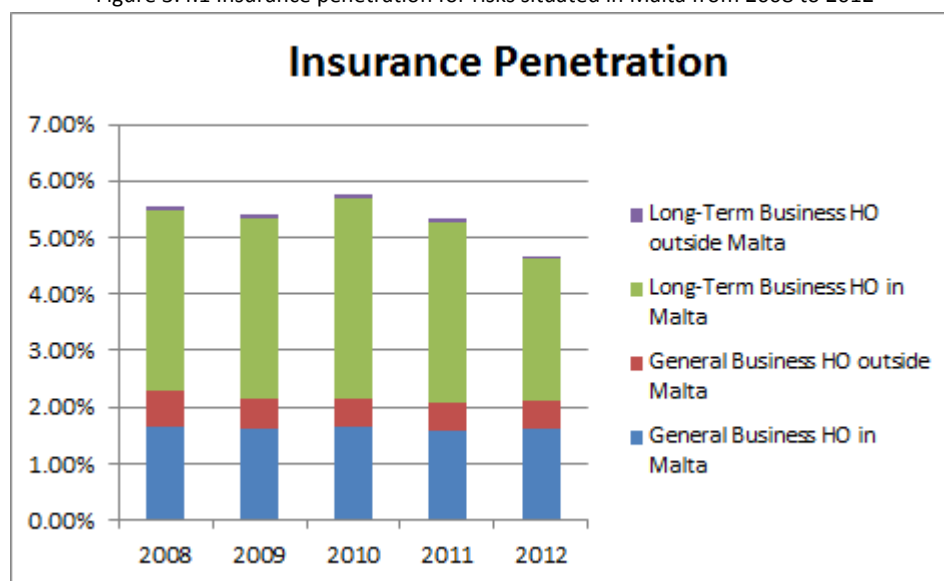
3.4. Insurance Penetration of the Domestic Insurance Market

The gross domestic product in real terms for 2012 was €6.8bn (€6.6bn in 2011), an increase of 3.3% from 2011.

The insurance penetration rate, defined as the total gross written premiums with respect to risks situated in Malta as a share of the gross domestic product, decreased by 0.7% from 5.3% in 2011 to almost 4.7% in 2012.

For the general business, the penetration rate remained level at 2.1% in 2011 and 2012. However, for the long-term business, the rate decreased by 0.7%, from 3.2% in 2011 to 2.6% in 2012.

Figure 3.4.1 Insurance penetration for risks situated in Malta from 2008 to 2012



Notes:

- (1) The long-term business includes investment contracts without discretionary participation features
- (2) GDP at current market prices (sourced from National Statistics Office (NSO))
- (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 Q1 2013.

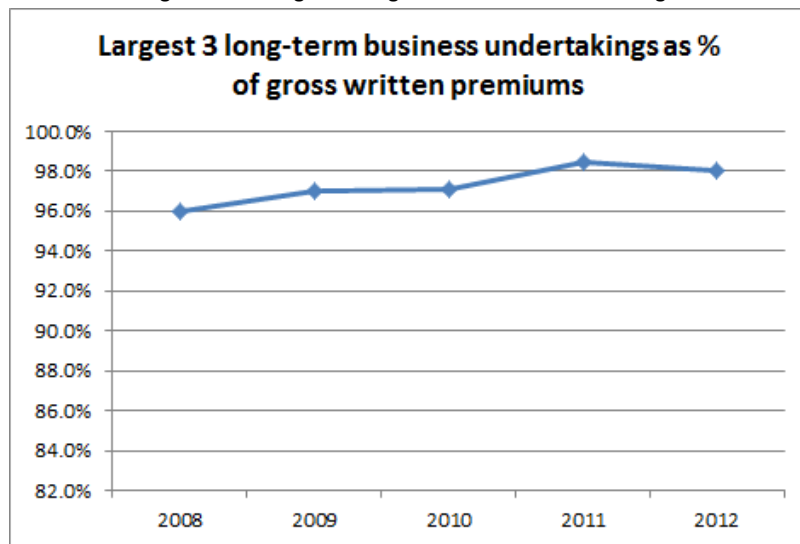
The decrease in the insurance penetration rate observed in 2012 is due to the gross written premiums by long-term business undertakings with HO in Malta, which has continued to decrease in 2012 due to the poor economic conditions.

3.5. Concentration of the Domestic Insurance Market

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

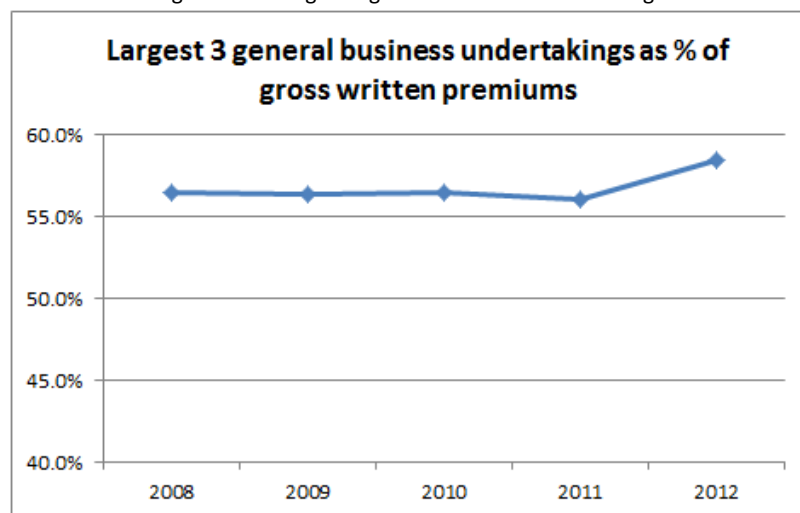
The three largest long-term business undertakings wrote 98.1% (98.5% in 2011*) of the total long-term insurance gross written premiums by undertakings with HO in Malta and undertakings with HO outside Malta that service long-term business in the domestic sector through agencies.

Figure 3.5.1 Largest 3 long-term business undertakings



The largest three general business undertakings wrote 58.4% (56.0% in 2011*) of the total general insurance gross written premiums by undertakings with HO in Malta and undertakings with HO outside Malta that service general business in the domestic sector through agencies.

Figure 3.5.2 Largest 3 general business undertakings



* Please note that the business concentration figures for 2011 have been restated.

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 16.4% (€194m) from €1,185m in 2011 to €1,379m in 2012.

The increase between 2011 and 2012 is due to the significant increase in the volume of business written in the *accident and health, motor, general liability, and other* business classes. Over 2012, there has been a reduction in gross written premiums for the *aviation, marine and transport and fire and other damage to property* business classes.

Although the *fire and other property damage* business class remains the largest part of the general business written, the volume of gross written premiums for the *accident and health* and *other* business classes were almost as large.

4.1.1. Comparison of Gross Written Premiums by Business Class

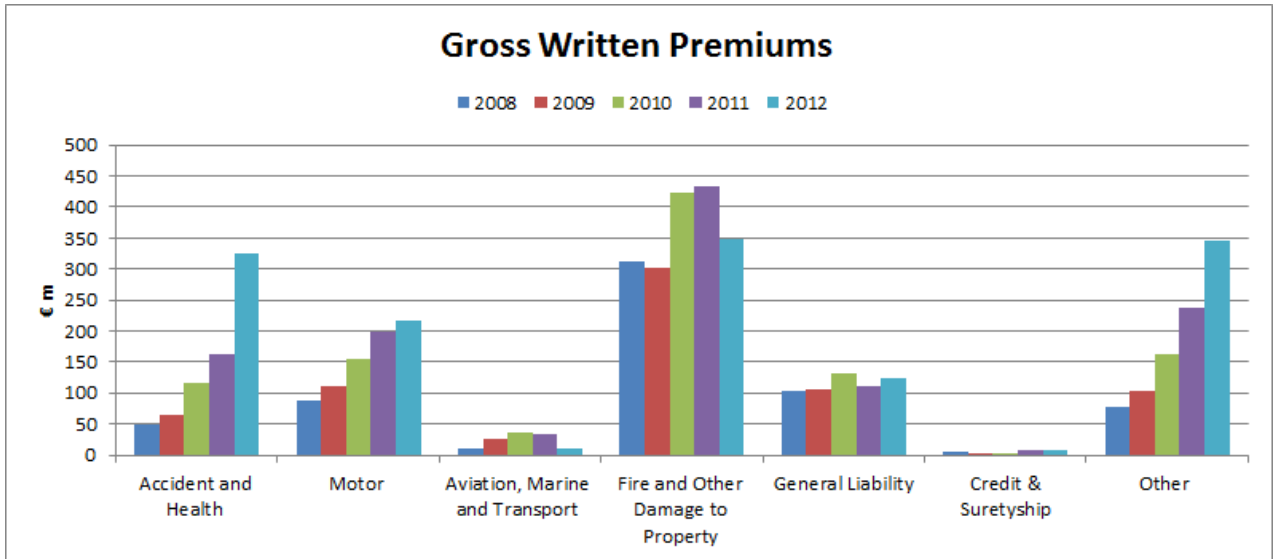
The table below provides a comparison of the gross written premiums between 2008 and 2012 by business:

Table 4.1.1.1 Gross written premiums for all undertakings from 2008 to 2012 by business class

€m	2008	2009	2010	2011	2012	% Change 2011 /2012
Accident and Health	50	64	117	163	325	100.1%
Motor	88	111	155	198	216	8.9%
Aviation, Marine and Transport	10	26	35	34	11	-67.7%
Fire and Other Damage to Property	313	301	422	434	349	-19.5%
General Liability	104	107	132	112	124	10.8%
Credit & Suretyship	5	3	2	7	8	17.3%
Other*	79	104	162	238	347	45.4%
Total	650	716	1,026	1,185	1,379	16.4%

*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 2008 to 2012 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 in Malta has been steadily decreasing whilst the volume of general business written outside Malta has been increasing between 2008 and 2012.

Figure 4.1.2.1 Proportion of risks written in and outside of Malta from 2008 to 2012

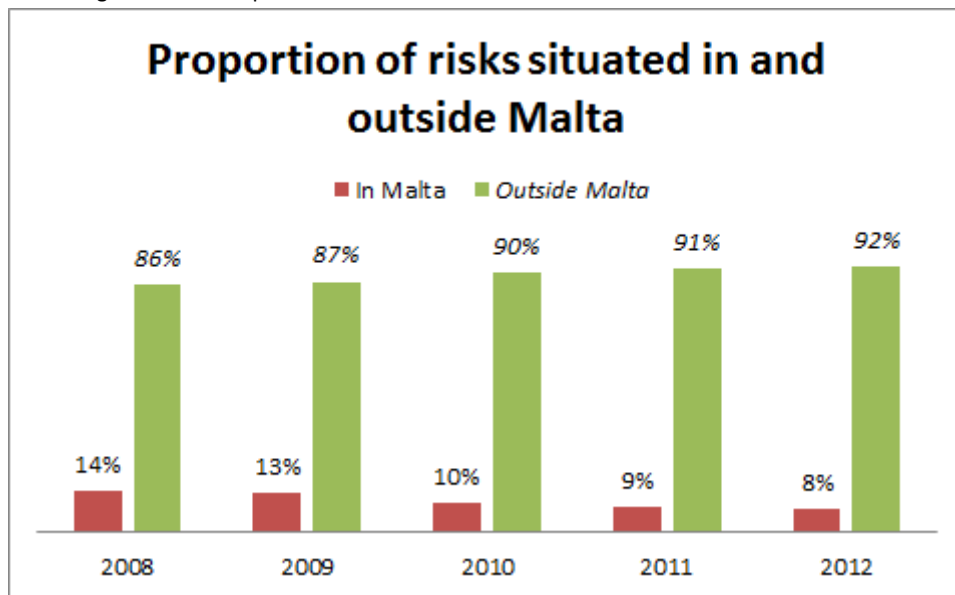
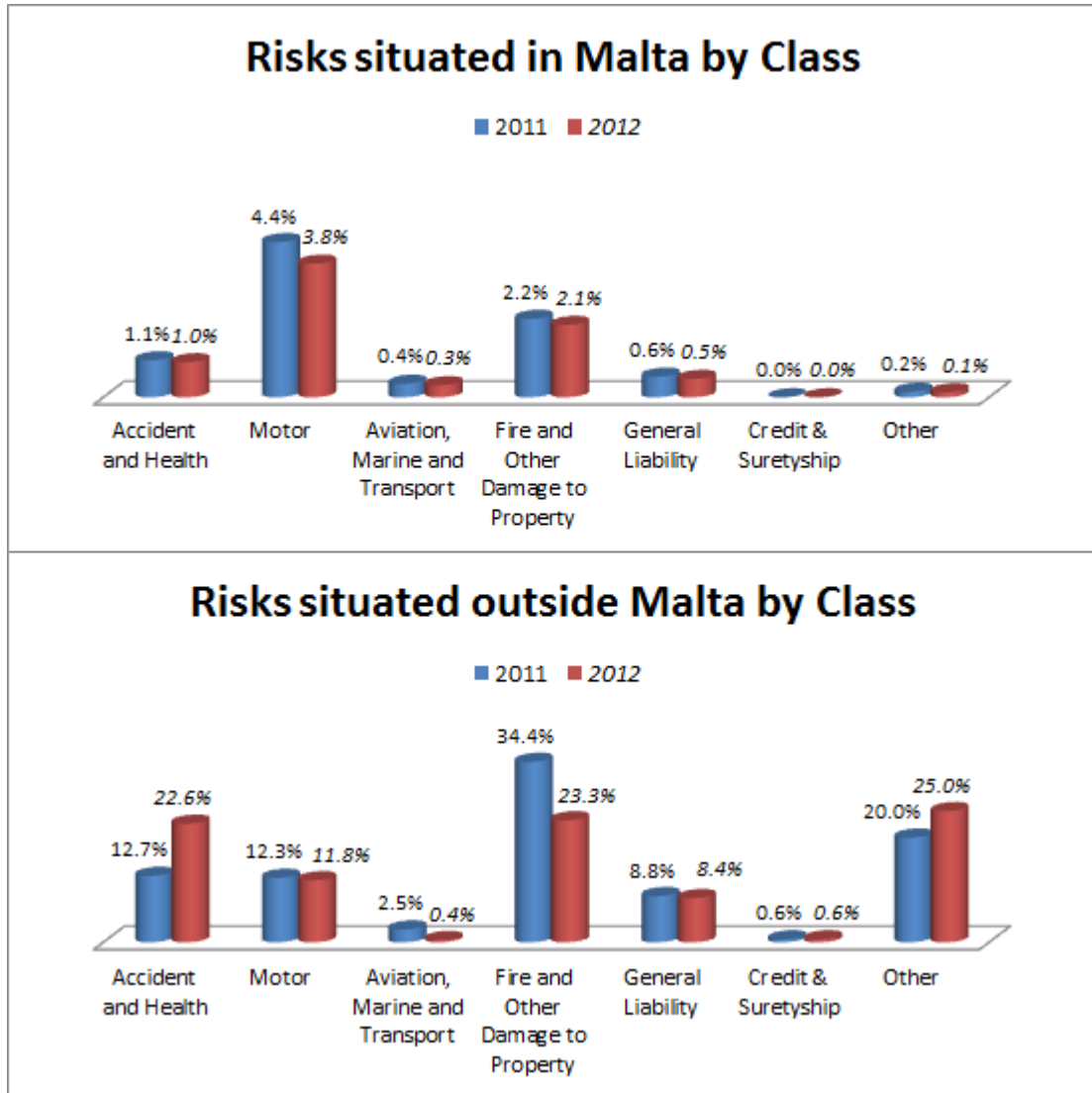


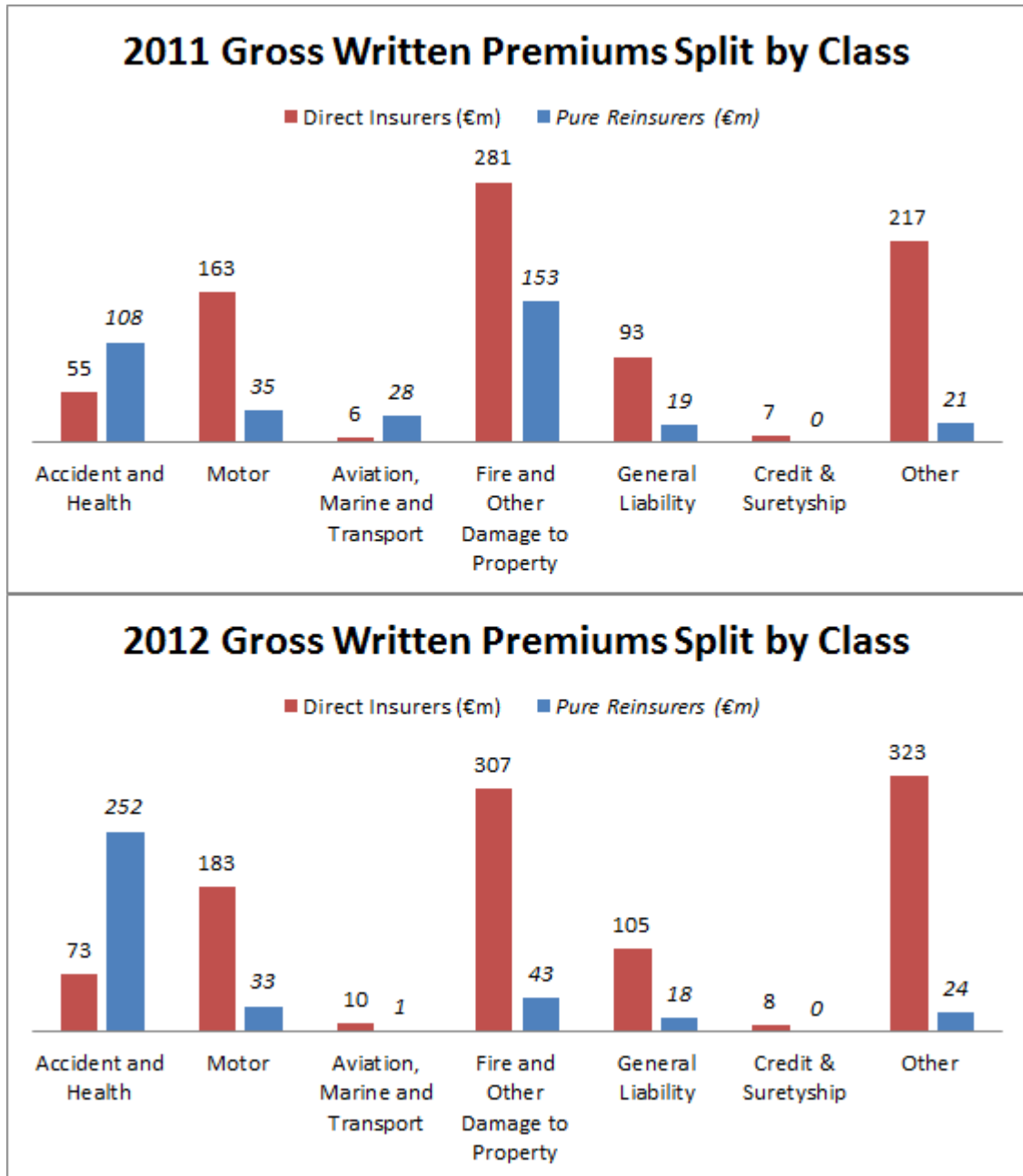
Figure 4.1.2.2 Risks situated in and outside Malta in 2010 and 2011 by business class



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 2011 and 2012 by class of business:

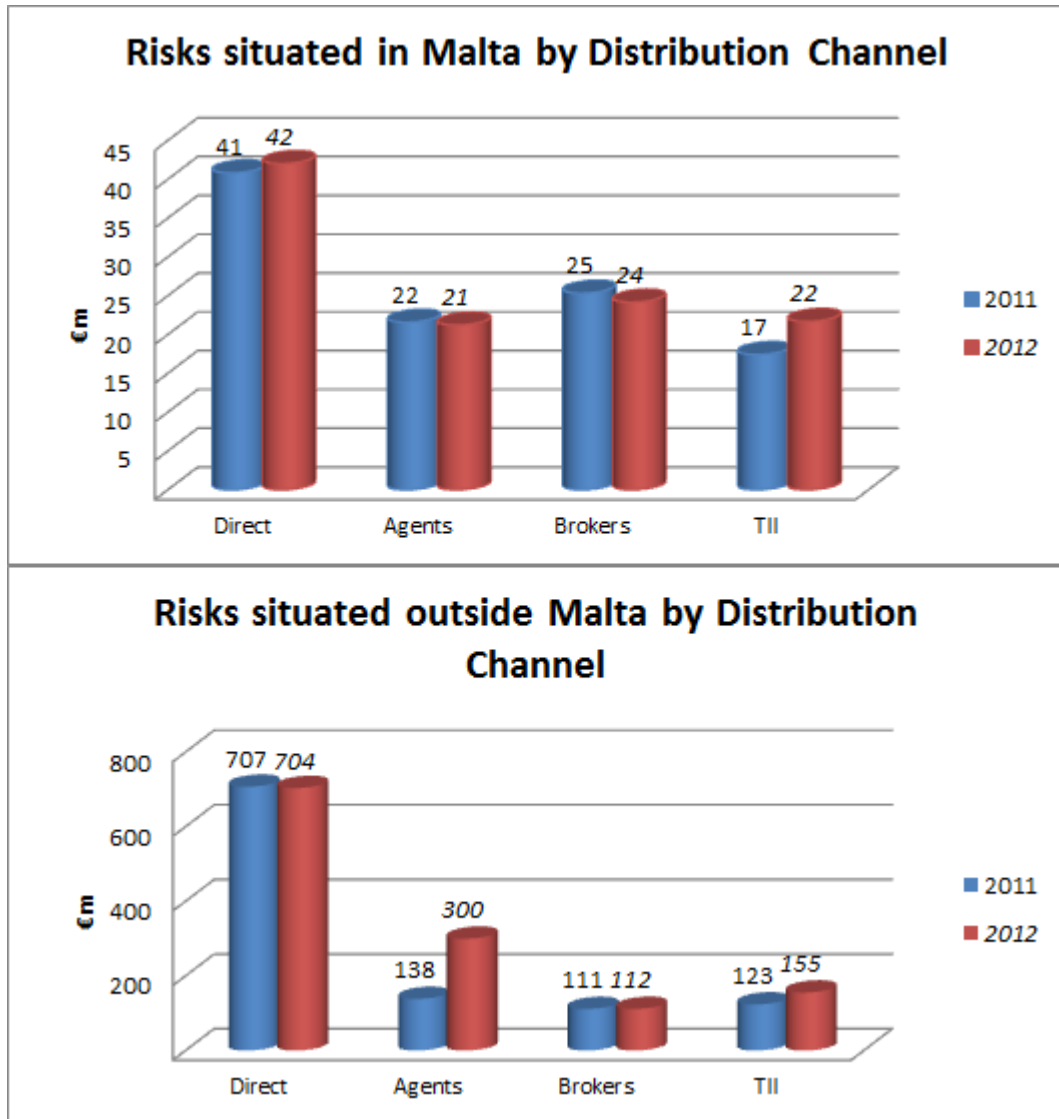
Figure 4.1.3.1 Gross written premiums split between direct insurers and pure reinsurers for 2011 and 2012



4.2. Source of Business

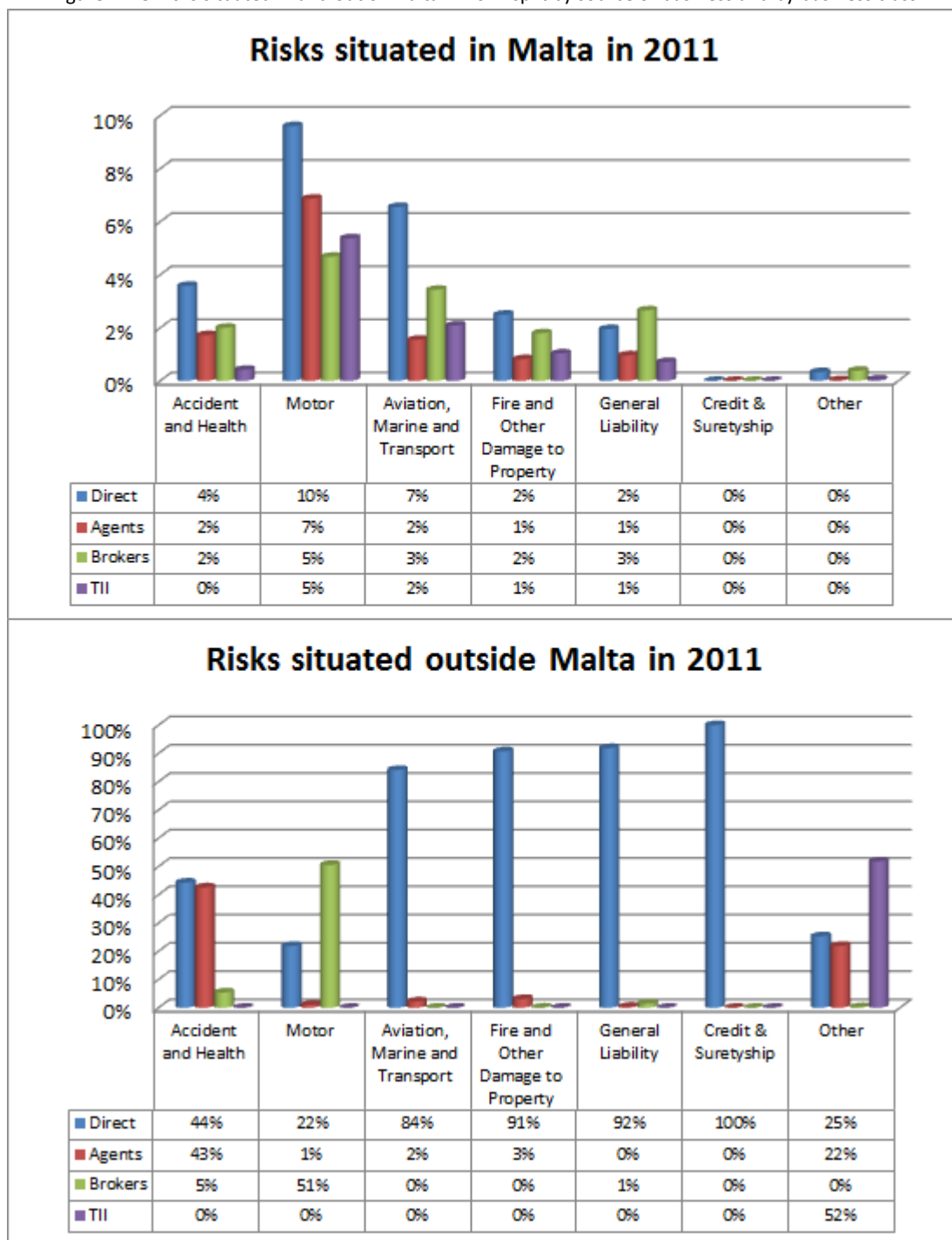
The general business sector for risks situated in Malta and outside Malta continues to be mainly directly generated in 2012. The directly generated business accounted for 38.5% (€42m) of the business for risks situated in Malta and 55.4% (€704m) of the business for risks situated outside Malta.

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



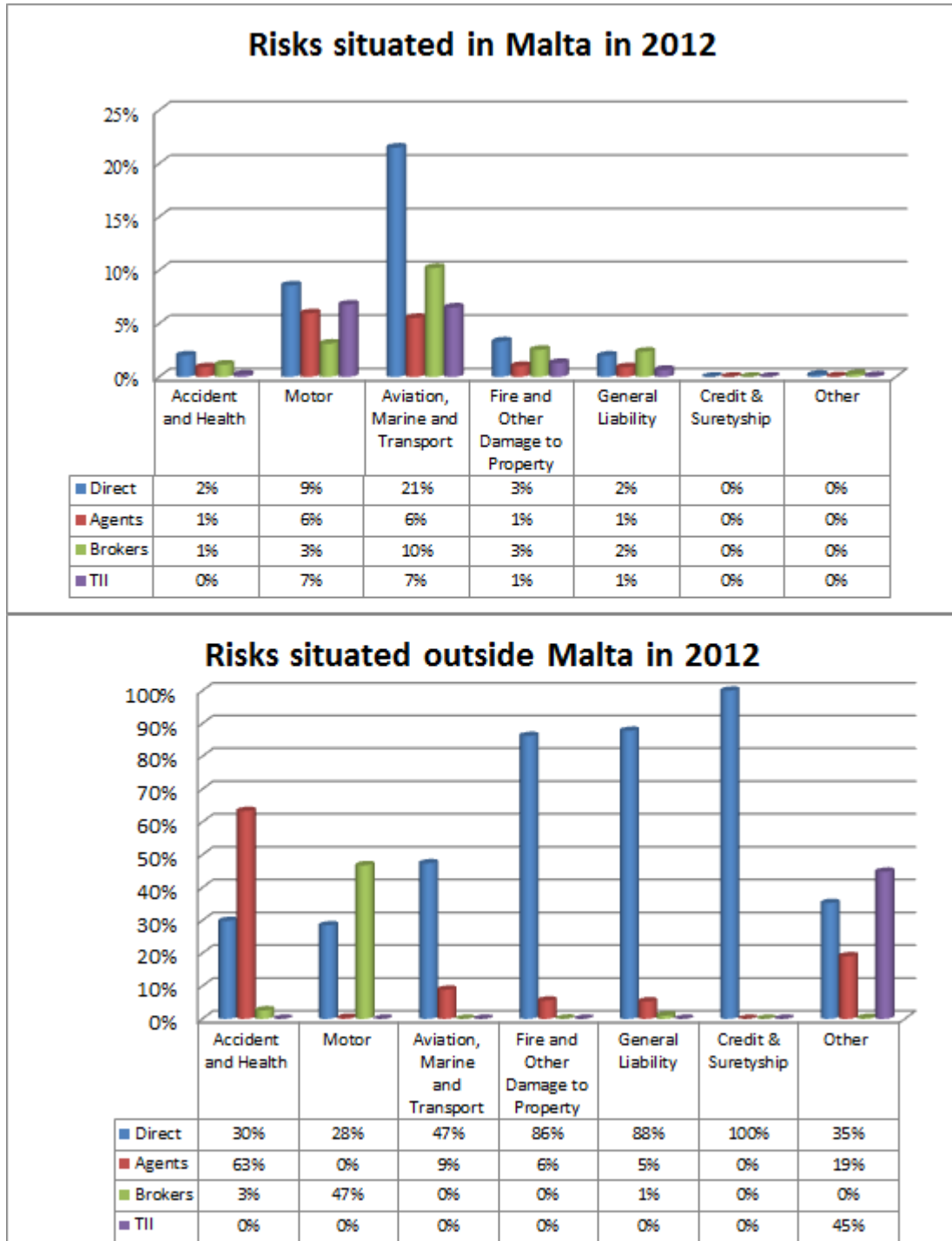
The charts presented in figures 4.2.3 and 4.2.4 below show the source of business for risks in and outside Malta by source of business and business class:

Figure 4.2.3 Risks situated in and out of Malta in 2011 split by source of business and by business class



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

Figure 4.2.4 Risks situated in and out of Malta in 2012 split by source of business and by business class



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

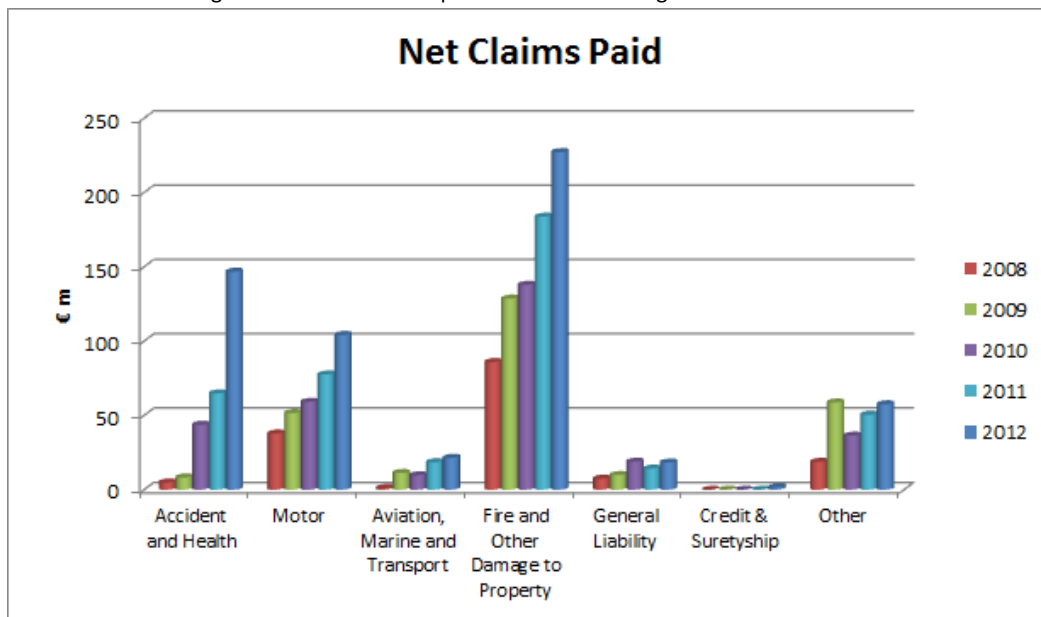
4.3. Claims

4.3.1. Net Claims Paid

The net claims paid has increased by 41% (€168m) in 2012 [34% (€104m) in 2011] from €409m in 2011 to €577m in 2012.

The most significant increase in percentage terms and in Euro amounts was observed in the *accident and health* business class of 236% and €82m respectively.

Figure 4.3.1.1 Net claims paid for all undertakings from 2008 to 2012



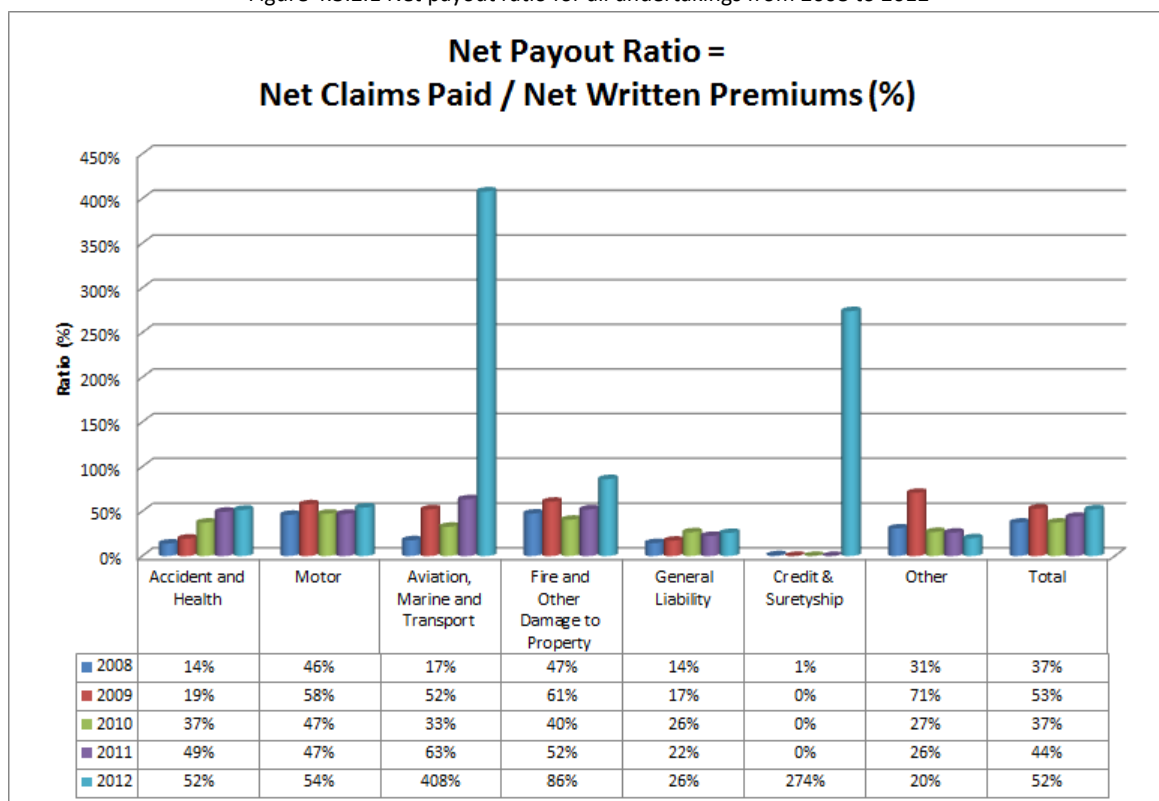
4.3.2. Net Payout Ratio

The net payout ratio has increased from 44% in 2011 to 52% in 2012. 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 and that the ratio has increased significantly for the *aviation, marine and transport* and *credit and suretyship* business classes in 2012 due to the increase in claims paid in 2012, without a corresponding increase in net written premiums.

In 2012, the largest increase of 344% in the net payout ratio was observed in *the aviation, marine and transport* business class, whilst the largest decrease of 6% was observed in the *other* business class.

Figure 4.3.2.1 Net payout ratio for all undertakings from 2008 to 2012

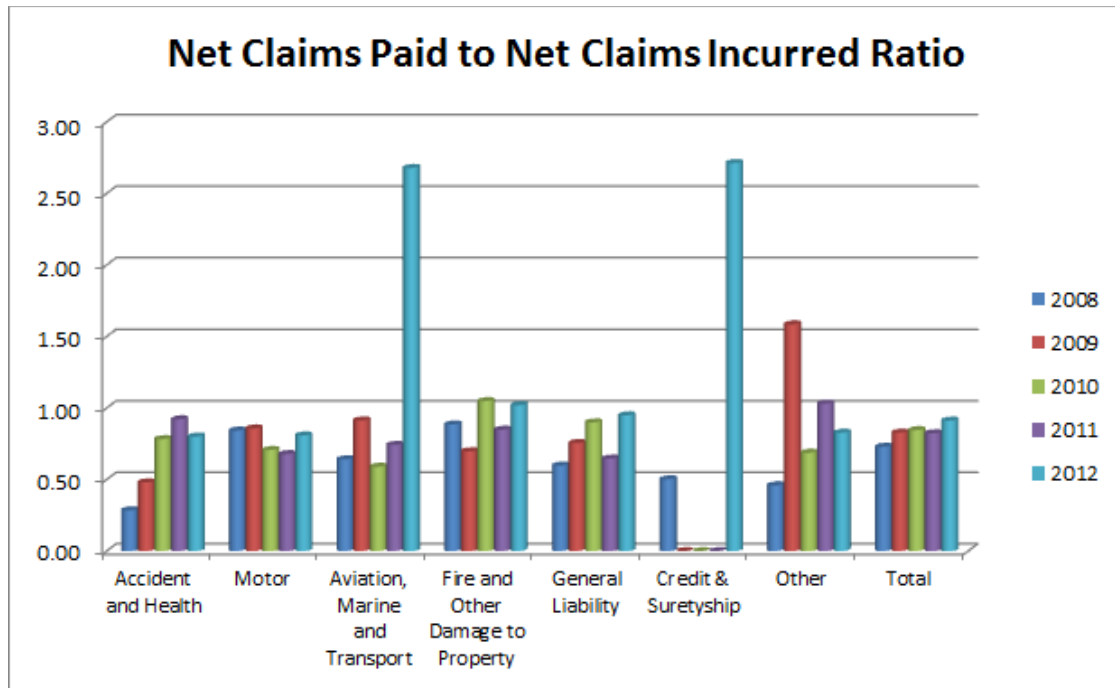


4.3.3. Ratio of Net Claims Paid over Net Claims Incurred

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 significantly for the *aviation, marine and transport* and *credit and suretyship* business classes in 2012 due to the increase in claims paid in 2012.

Figure 4.3.3.1 Net claims paid over net claims incurred for all undertakings from 2008 to 2012

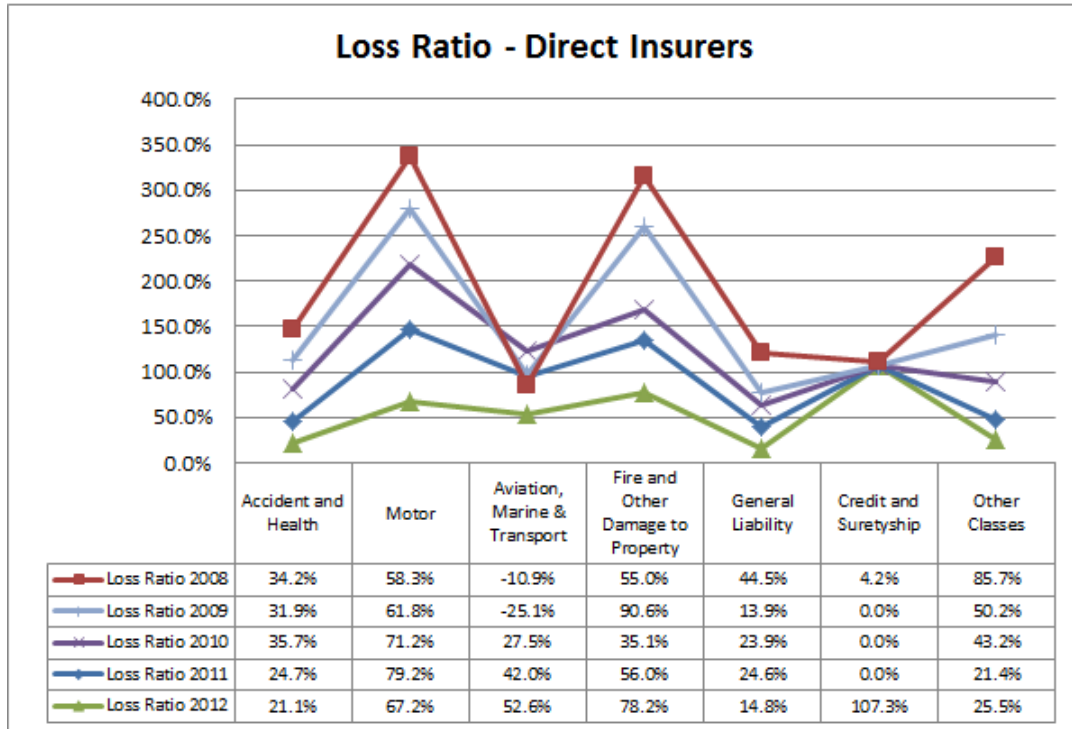


4.4. Key Financial indicators for General Business

4.4.1. Loss ratio

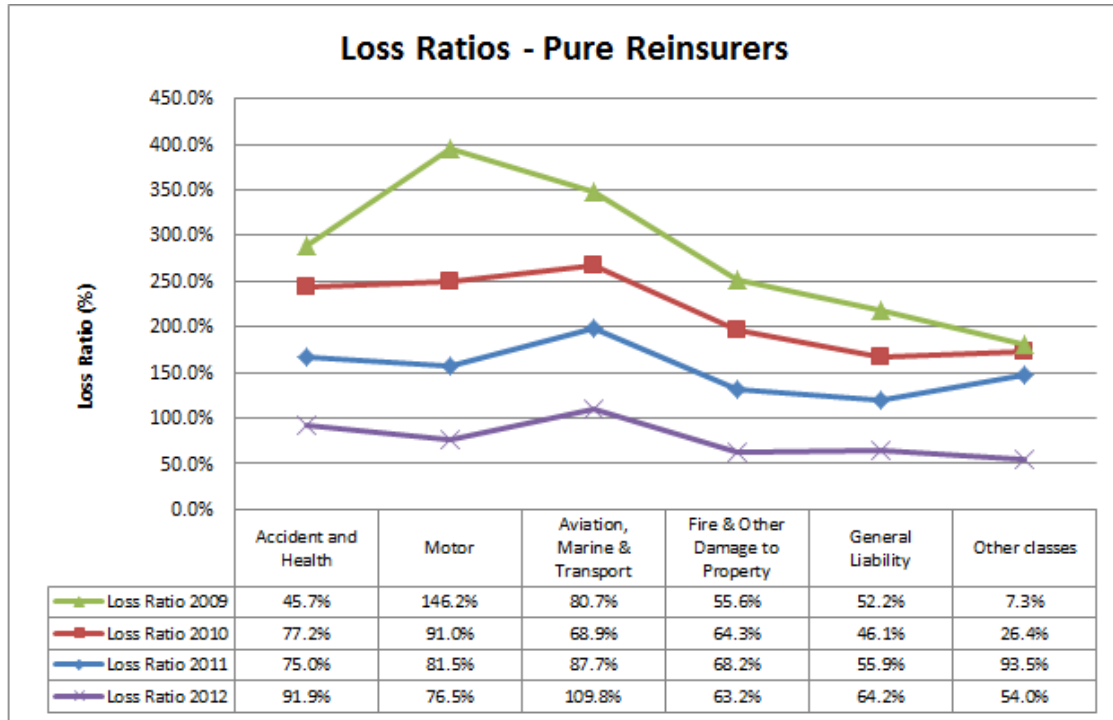
The loss ratios presented here are the net loss ratios. This is calculated as the net claims incurred over net earned premiums. Note that the loss ratios presented here are the accounting year loss ratios and are not the ultimate loss ratios calculated by underwriting year or accident year. The loss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

Figure 4.4.1.1 Loss ratios for direct insurers from 2008 to 2012



The loss ratios for the direct insurers have *worsened* between 2011 and 2012, in the *aviation, marine and transport, fire and other damage to property* and the *credit and suretyship* business classes. Improvements were observed for the *accident and health, motor* and the *general liability* business classes of 3.6%, 12.0%, and 9.8% respectively.

Figure 4.4.1.2 Loss ratios for pure reinsurers from 2009 to 2012



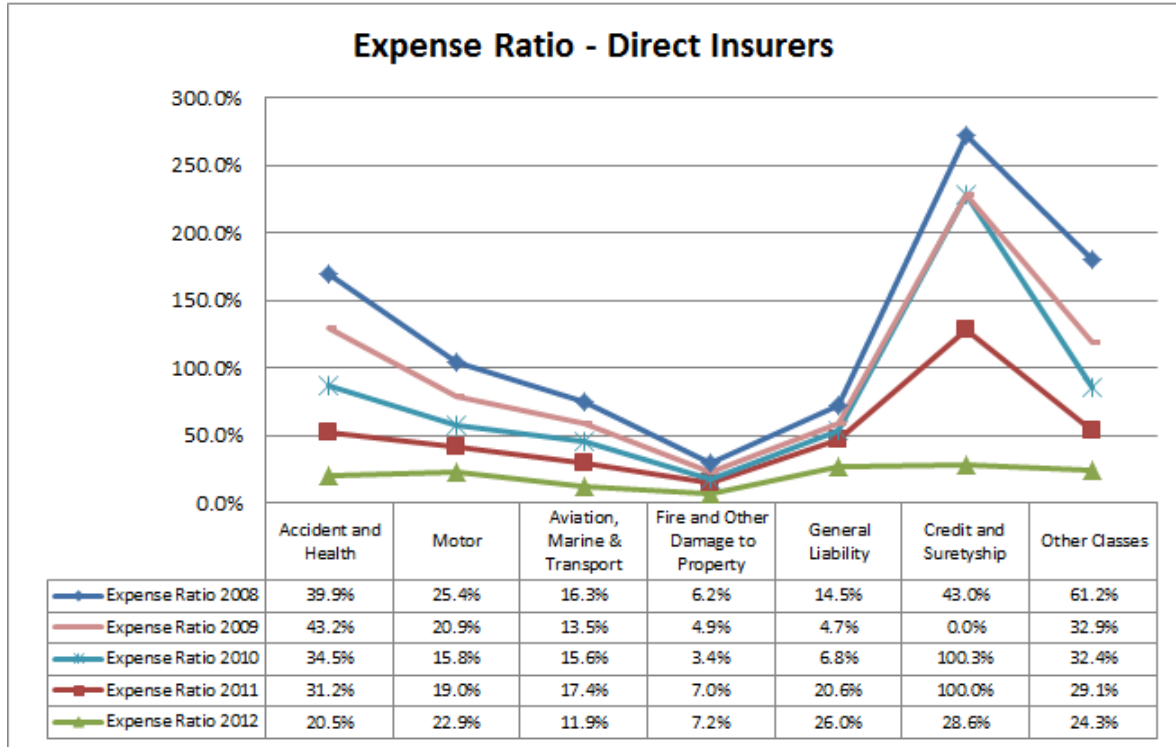
Note: For the direct reinsurers, data was not readily available for 2008

The loss ratios for the pure reinsurers have worsened between 2011 and 2012 for the *accident and health*, *aviation, marine and transport* and the *general liability* business classes. Improvements were observed in the *motor*, *fire and other damage to property* and the *other* business class of 5%, 5%, and 39.6% respectively.

4.4.2. Expense ratio

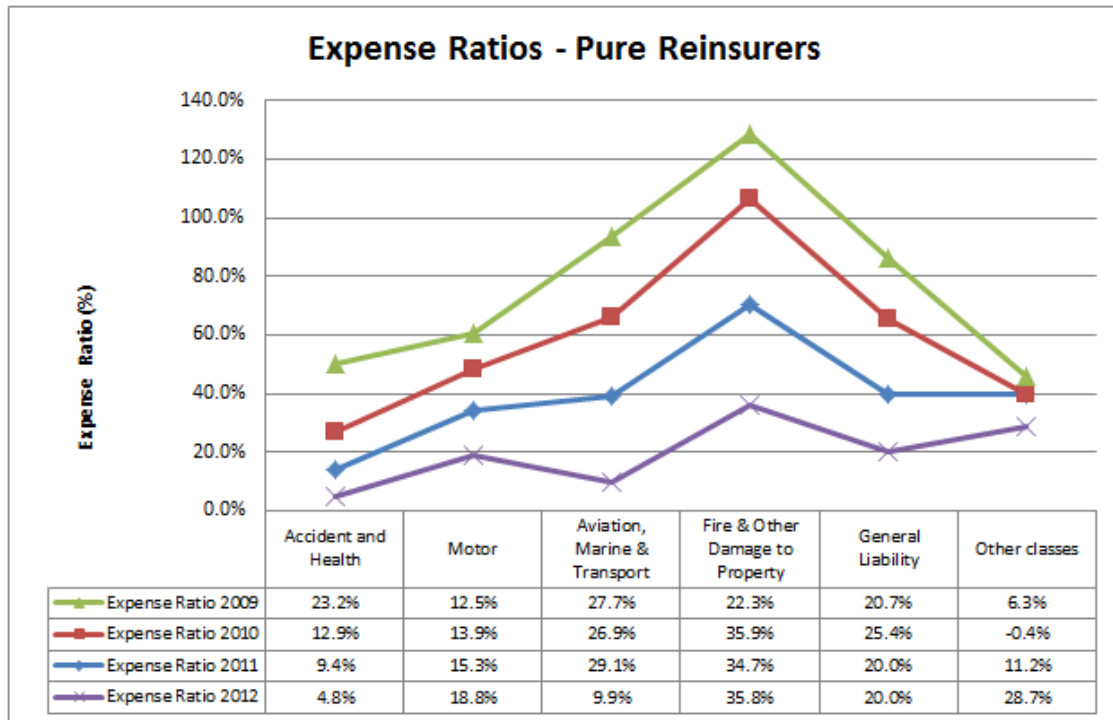
The expense ratio is calculated as the net operating expenses over the net earned premiums. The expense ratios for direct insurers and pure reinsurers are presented in the charts below:

Figure 4.4.2.1 Expense ratios for direct insurers from 2008 to 2012



The expense ratios for direct insurers have increased between 2011 and 2012 for all business classes except for the *accident and health*, *aviation, marine and transport*, *credit and suretyship* and the *other* business classes, which have decreased by 10.7%, 5.5%, 71.4%, and 4.8% respectively. The *fire and other property damage* business class has remained broadly unchanged.

Figure 4.4.2.2 Expense ratios for pure reinsurers from 2009 to 2012



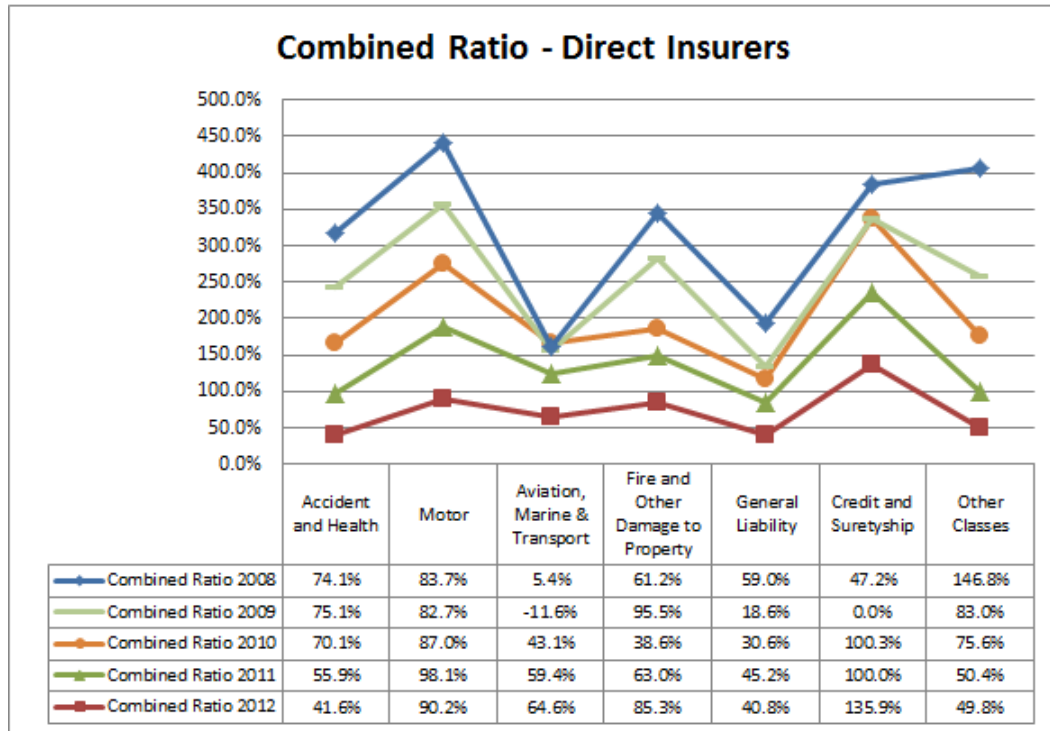
Note: For the direct reinsurers, data was not readily available for 2008

The expense ratios for pure reinsurers have also increased between 2011 and 2012 for all classes of insurance except for the *accident and health* and the *aviation, marine and transport* business classes, which have decreased by 4.6% and 19.2% respectively.

4.4.3. Combined ratio

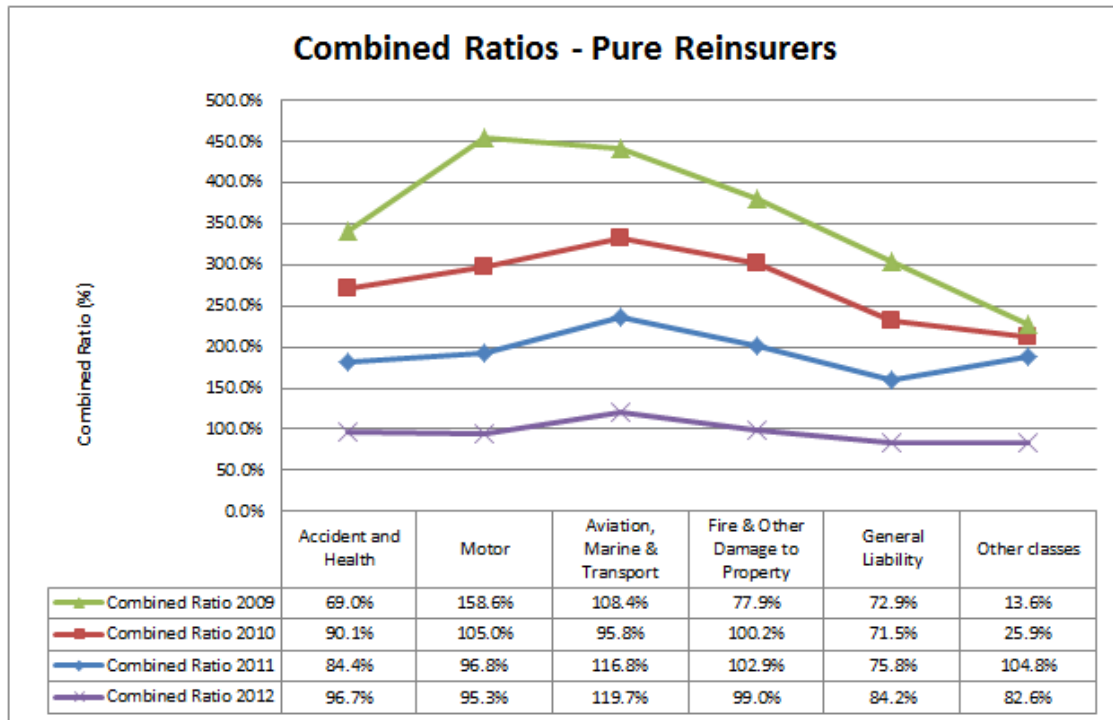
The combined ratio is calculated as the sum of net claims incurred and the net operating expenses over the net earned premiums. The combined ratios for direct insurers and pure reinsurers are presented in the charts below:

Figure 4.4.3.1 Combined ratios for direct insurers from 2008 to 2012



The combined ratios of the direct insurers have decreased for most business classes between 2011 and 2012 except for the *aviation, marine & transport*, *fire and other damage to property* and the *credit and suretyship* business classes, which have increased by 5.2%, 22.3%, and 35.9% respectively. The *other* business class has remained broadly unchanged.

Figure 4.4.3.2 Combined ratios for pure reinsurers from 2009 to 2012



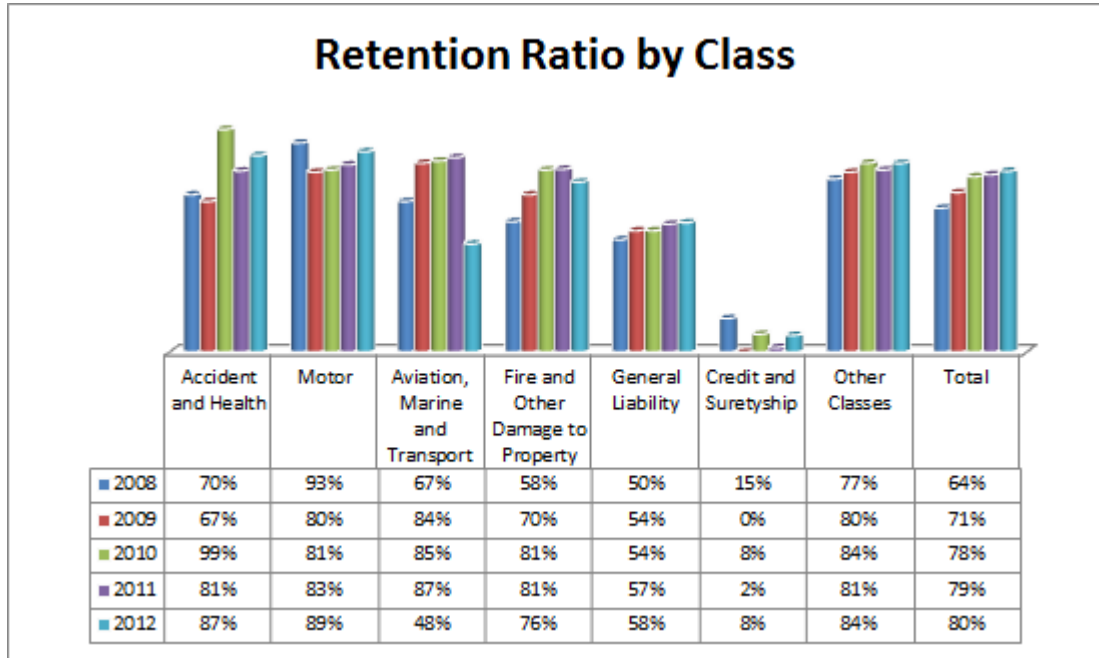
Note: For the direct reinsurers, data was not readily available for 2008

The combined ratios of the pure reinsurers have also increased between 2011 and 2012 for all business classes except for the *motor, fire and other damage to property* and the *other* business classes, which have decreased by 1.5%, 3.9%, and 22.1% respectively.

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 2008 to 2012 by written premium



5. Long-Term Business Overview

5.1. Gross Written Premiums

The gross written premiums in respect of the long-term business have decreased by 1.2% (€13m) in 2012 from €1,022m in 2011 to €1,009m in 2012, compared to an increase of 110.7% (€537m) in 2011. This decrease is due to the decrease in volume of business written by pure reinsurers.

The bulk of the long-term business is written under the life and annuity business class. This makes up 90% of the total gross written premiums in 2012 (92% in 2011). Since 2010, we have seen a steady increase in the gross written premiums for permanent health business. This totalled €24m in 2012, compared with €17m in 2011.

5.1.1. Comparison of Gross Written Premiums by class of insurance

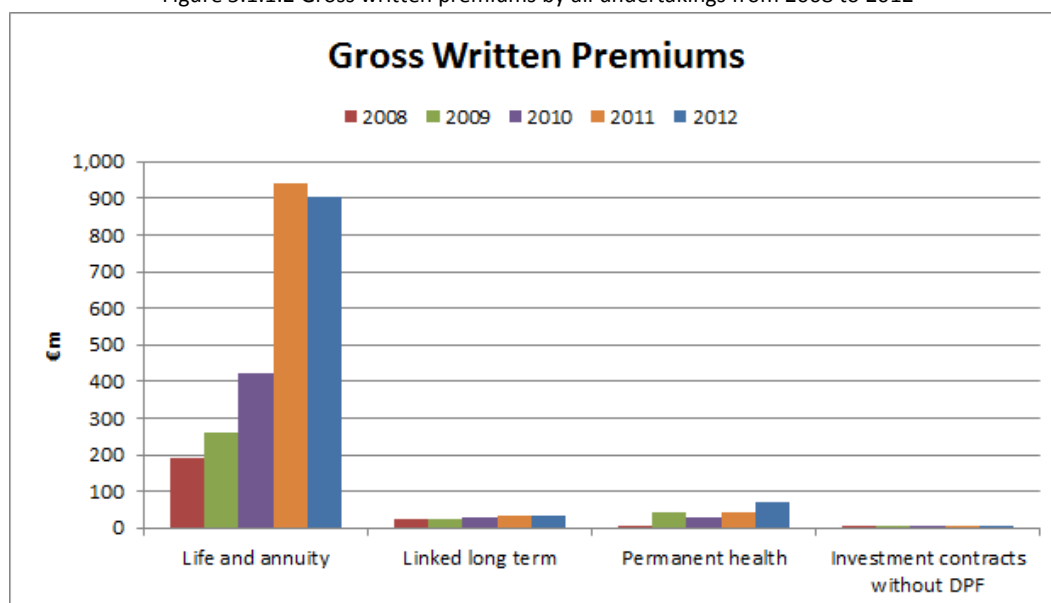
The table shows how the gross written premiums have developed between 2008 and 2012 by class of business:

Table 5.1.1.1 Gross written premiums by all undertakings from 2008 to 2012

€ m	2008	2009	2010	2011	2012	% Change 2011/2012
Life and annuity	190	259	422	941	903	-4.0%
Linked long term	24	23	27	33	35	5.6%
Permanent health	1	43	28	45	69	53.6%
Investment contracts <i>without</i> DPF	7	3	7	4	2	-52.5%
Total	221	327	485	1,022	1,009	-1.2%

The chart below provides a comparison of the gross written premiums from 2008 to 2012:

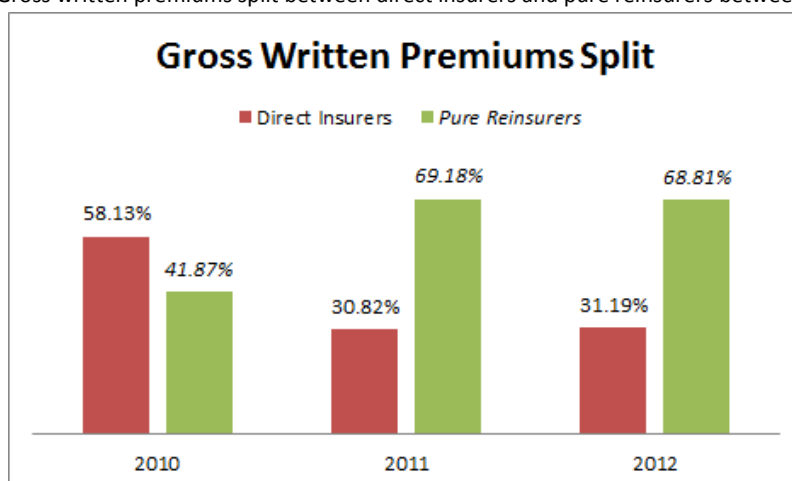
Figure 5.1.1.2 Gross written premiums by all undertakings from 2008 to 2012



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 has not changed significantly between 2011 and 2012, as shown in the chart below:

Figure 5.1.2.1 Gross written premiums split between direct insurers and pure reinsurers between 2010 and 2012



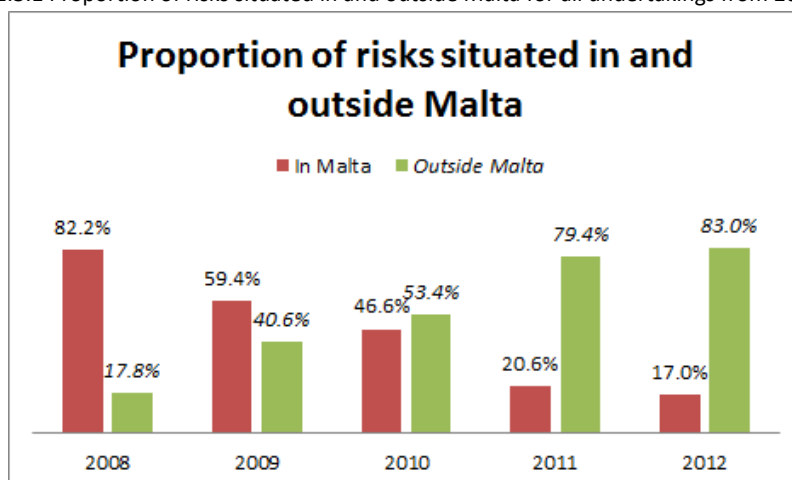
5.1.3. Comparison of Gross Written Premiums between risks situated in Malta and outside Malta

In respect of risks *situated in Malta* in 2011 and 2012, the gross written premiums for direct insurance business have decreased by 18.9%, whilst a 25.8% increase was observed for reinsurance business.

In respect of risks *situated outside Malta* in 2011 and 2012, there has been a 36.7% increase in the gross written premiums for direct insurance business and a 1.8% decrease for reinsurance business.

These changes were observed in the life and annuity business class, which forms the bulk of the long-term business written. The chart below shows the proportion of risks situated in and outside Malta for all undertakings:

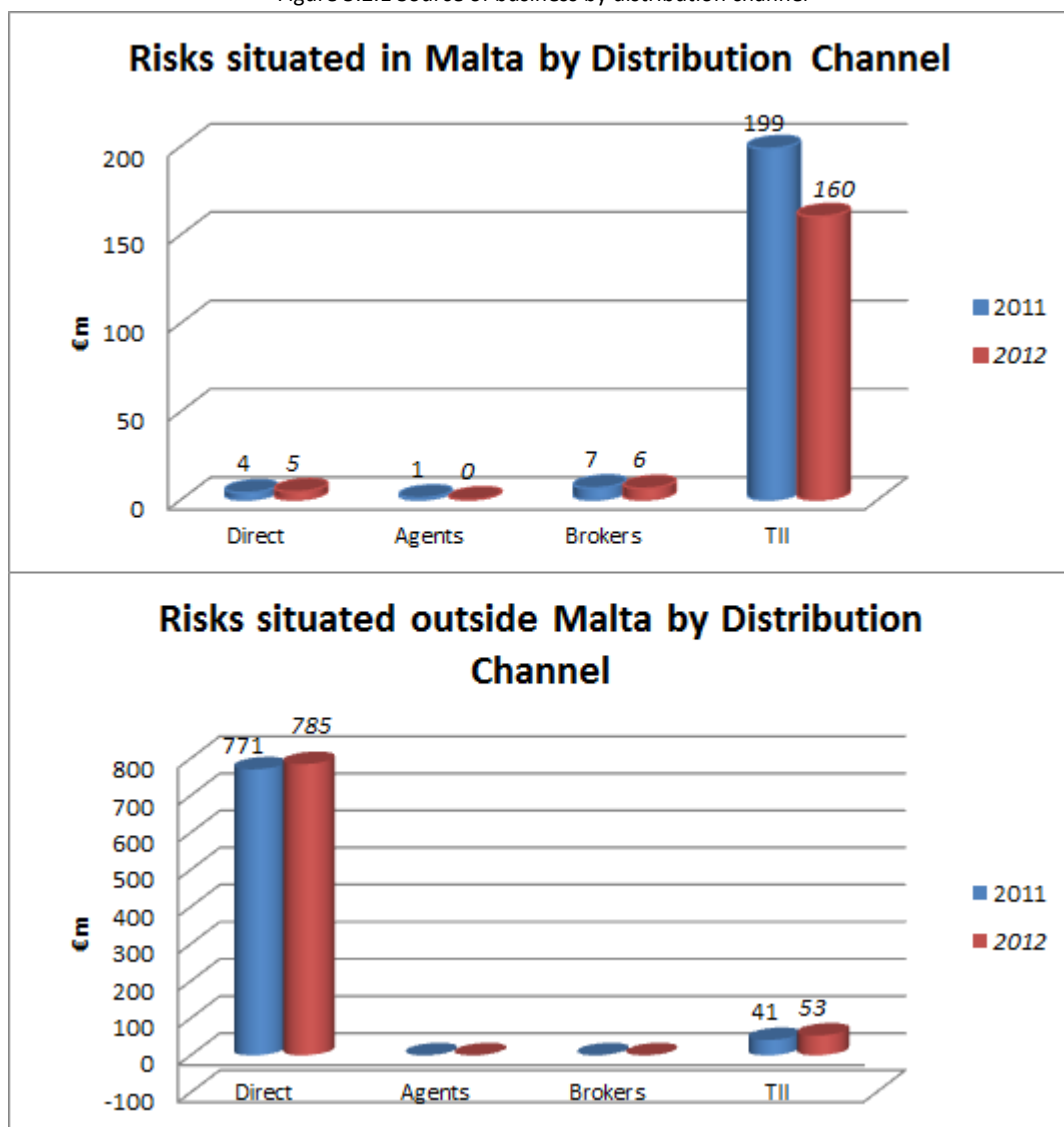
Figure 5.1.3.1 Proportion of risks situated in and outside Malta for all undertakings from 2008 to 2012



5.2. Source of Business

New business written in the long-term business sector for risks situated in Malta continues to be mainly generated by tied insurance intermediaries (TII) in 2012. However, there has been an increase in business sourced directly. The business generated by TIIs account for 93.6% (€160m) [94.4% (€199m) in 2011] of the business with 2.7% (€5m) [1.9% (€4m) in 2011] of the business generated directly. A very insignificant volume of new business was generated by agents in 2012.

Figure 5.2.1 Source of business by distribution channel



For the risks situated outside Malta, 93.6% (€785m) [94.9% (€771m) in 2011] of the business is generated directly and the remaining 6.4% (€53m) [5.1% (€42m) in 2011] is generated by TII.

5.3. Technical Provisions

The table below provides the breakdown of the technical provisions from 2008 to 2012.

Table 5.3.1 Technical provisions from 2008 to 2012 in total

Year	Gross (€m)	Reinsurance Ceded (€m)	Net of Reinsurance (€m)
2008	1,153	27	1,127
2009	1,508	17	1,491
2010	1,733	31	1,703
2011	5,265	48	5,218
2012	5,197	69	5,128

The charts below provide a split of the gross and net technical provisions from 2008 to 2012:

Figure 5.3.2 Split of gross and net technical provisions in total from 2008 to 2012

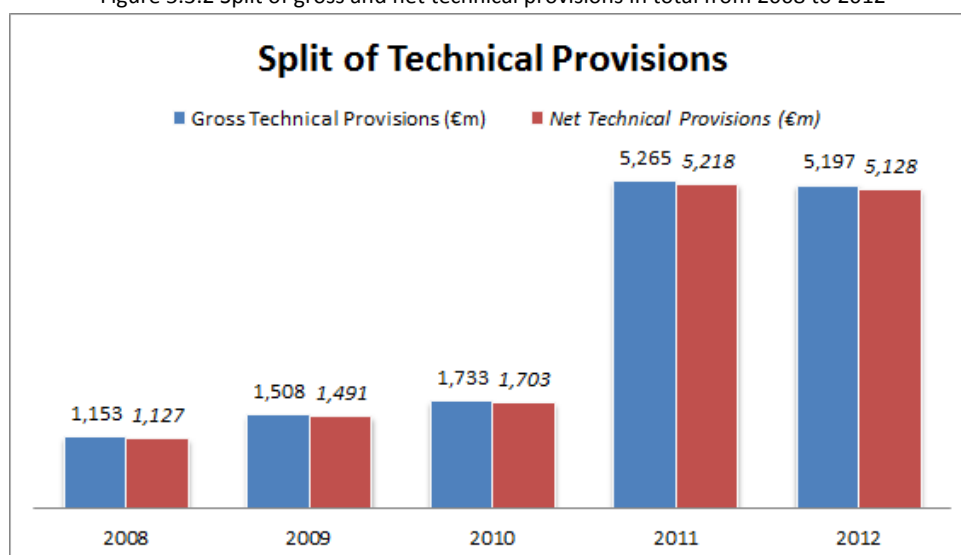
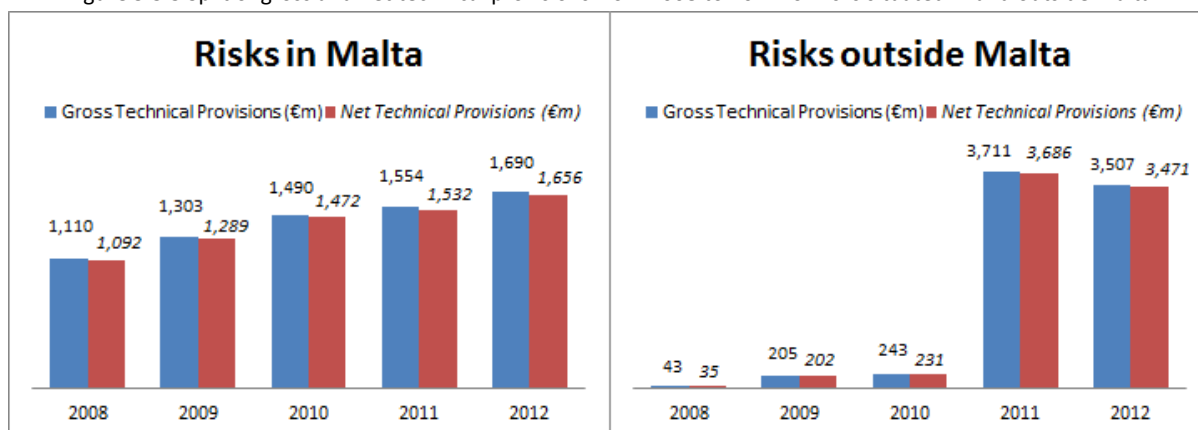


Figure 5.3.3 Split of gross and net technical provisions from 2008 to 2012 for risks situated in and outside Malta



When analysing the gross and net technical provisions for risks 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.

As the bulk (93%) 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 7% of the products written.

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

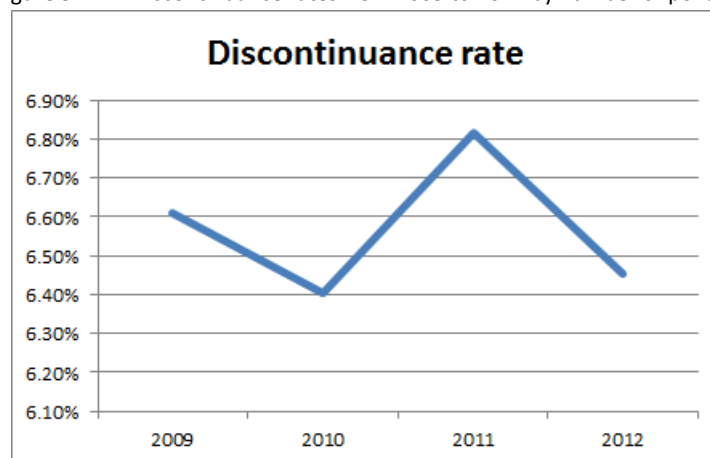
5.4. Analysis of Decrements

This section provides an analysis of the trends in the discontinuance rates, mortality rates and maturity rates for the risks 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 long-term business undertakings. The rates below represent a very crude analysis of the decrements experienced for the risks 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 decreased from 6.82% in 2011 to 6.45% in 2012. The trend of discontinuance rates by number of policies between 2009 and 2012 is shown below:

Figure 5.4.1.1 Discontinuance rates from 2009 to 2012 by number of policies



Note: Data was not readily available for 2008

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 2009 to 2012 by number of policies



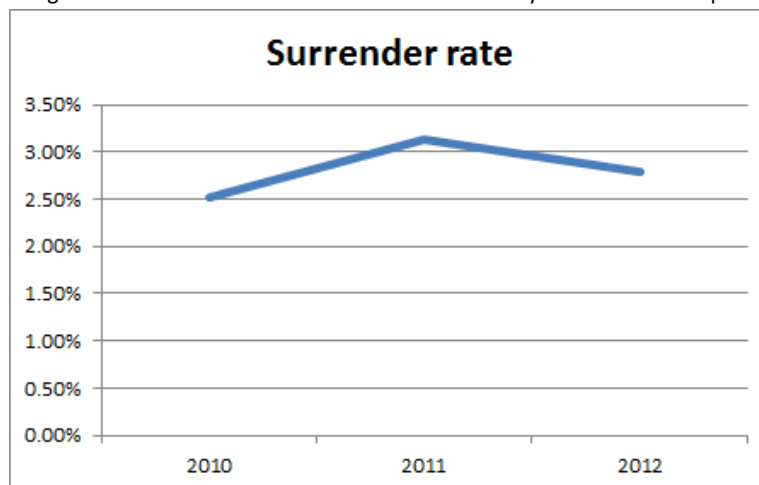
The change in the number of surrenders is driven by the with-profits endowment contracts, whilst the change in the number of lapses is driven by the non-profit contracts.

The increase in discontinuance rates from 2010 to 2011 was mainly due to the increase in the number of surrenders and the amount of surrender benefit paid.

From 2011 to 2012, we see a decrease in the discontinuance rates, again mainly due to the decrease in the number of surrenders and amount of surrender benefit paid.

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 2012 by benefit amounts paid

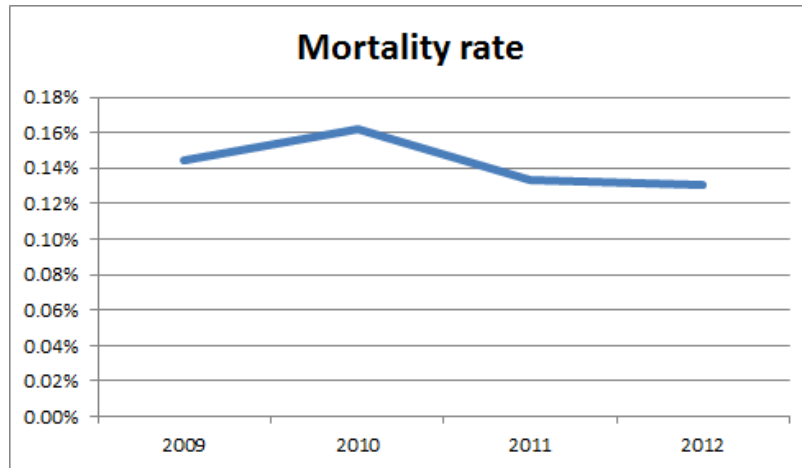


Note: Data was not readily available for 2008 and 2009

5.4.2. Mortality Rates

The mortality rate experienced by long-term business undertakings writing business in Malta has remained broadly unchanged between 2011 and 2012. The trend of mortality rates by number of policies between 2009 and 2012 is shown below:

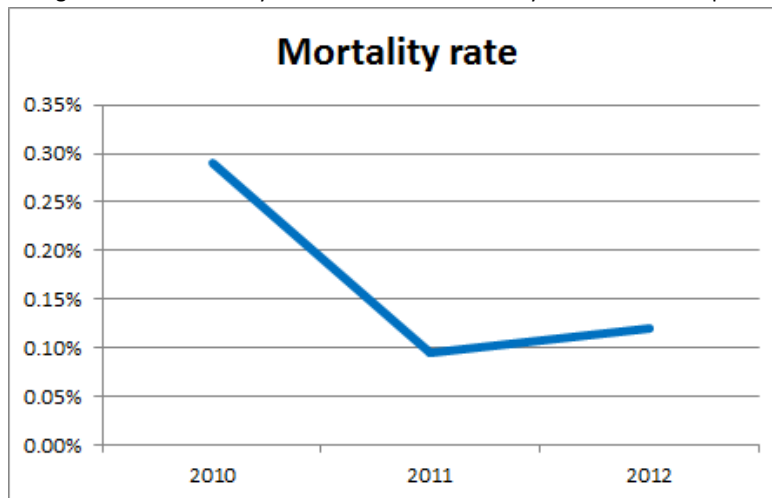
Figure 5.4.2.1 Mortality rates from 2009 to 2012 by number of policies



Note: Data was not readily available for 2008

The trend of mortality rates by the amount of benefits paid between 2010 and 2012 is shown below:

Figure 5.4.2.2 Mortality rates from 2010 to 2012 by benefit amounts paid



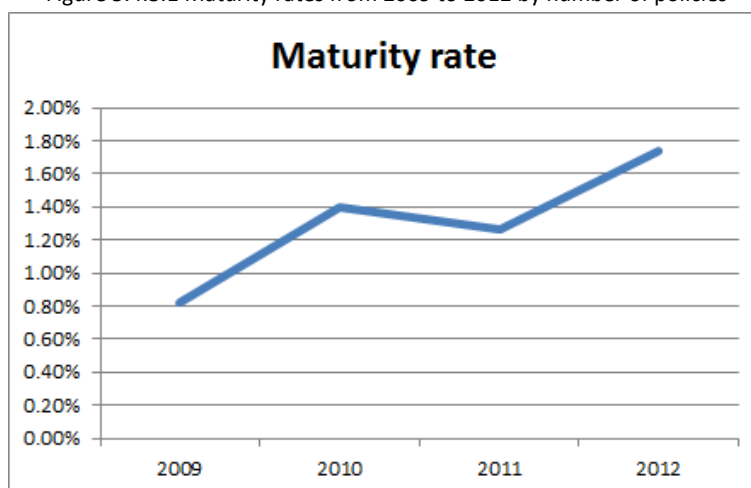
Note: Data was not readily available for 2008 and 2009

5.4.3. Maturity Rates

The maturity rate experienced by long-term business undertakings writing business in Malta has increased from 1.27% in 2011 to 1.74% in 2012. The increase in maturities has mainly arisen because of the experience of the with-profits endowment contracts.

The trend of maturity rates between 2009 and 2012 is shown below:

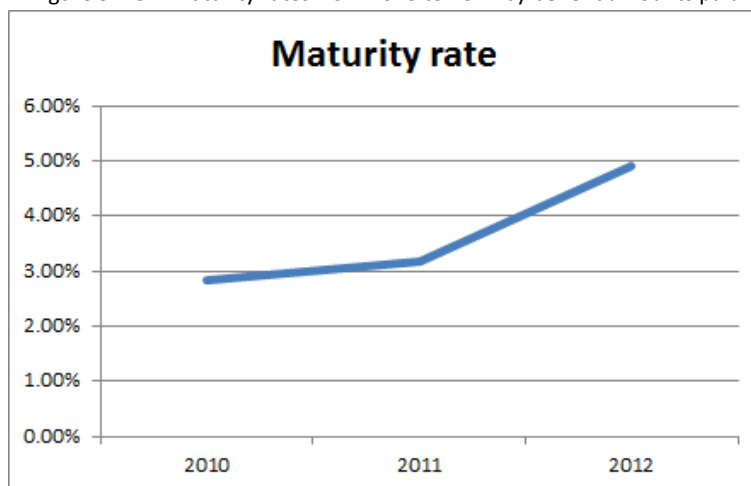
Figure 5.4.3.1 Maturity rates from 2009 to 2012 by number of policies



Note: Data was not readily available for 2008

The trend of maturity rates by the amount of benefits paid between 2010 and 2012 is shown below:

Figure 5.4.3.2 Maturity rates from 2010 to 2012 by benefit amounts paid



Note: Data was not readily available for 2008 and 2009

This shows that the run-off for the with-profits providers is increasing as their in-force books mature.