

**MFSA**

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MALTA FINANCIAL SERVICES AUTHORITY

# **INSURANCE AND PENSIONS SUPERVISION UNIT**

***Insurance Statistical Review 2013***

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 31<sup>st</sup> December 2013.

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 2013;
- (2) Comparisons for up to 5 years from 2009 to 2013 (where data for all 5 years are not readily available, this is indicated in the relevant sections);
- (3) Explanations for any significant changes since 2012.

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 statistics;
- (7) There are minor rounding effects in the totals in the tables and graphs presented.

### 3. Industry Overview

As at 31<sup>st</sup> December 2013, 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 2009 and 2013:

Table 3.1 Breakdown of authorised undertakings by nature of business from 2009 to 2013

Nature of business	2009	2010	2011	2012	2013
General	30	33	37	42	44
Life	8	8	8	7	7
Composite	3	2	2	2	2
Reinsurers	4	7	7	7	7
<b>Total</b>	<b>45</b>	<b>50</b>	<b>54</b>	<b>58</b>	<b>60</b>

*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:

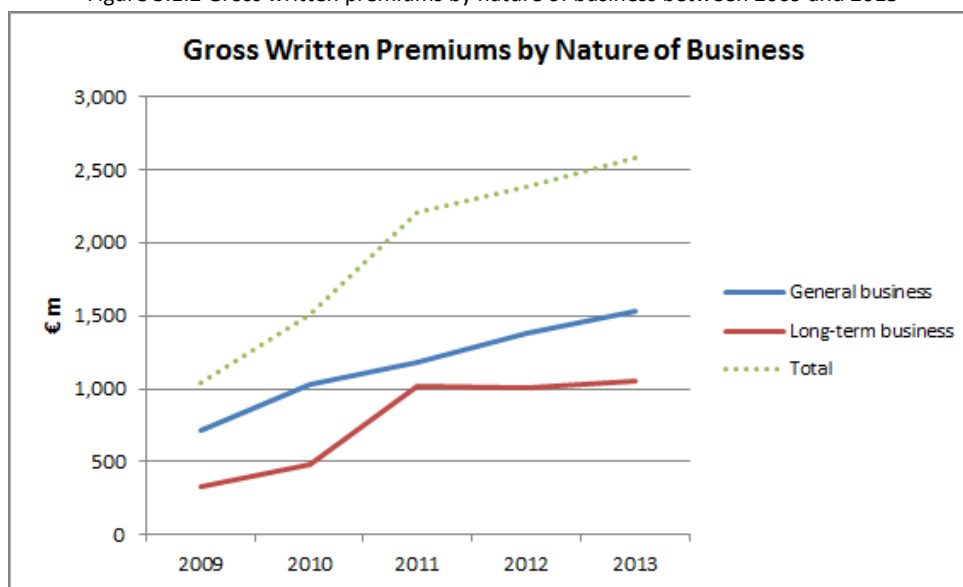
Table 3.1.1 Gross written premiums by nature of business between 2009 and 2013

Nature of business	2009 (€m)	2010 (€m)	2011 (€m)	2012 (€m)	2013 (€m)	% Change 2012/2013
General business	716	1,026	1,185	1,379	1,531	11.0%
Long-term business	327	485	1,022	1,009	1,049	4.0%
Total	1,044	1,511	2,208	2,388	2,580	8.0%

The total gross written premiums have increased by 8.0% (€192m) from €2,388m in 2012 to €2,580m in 2013. This is due to the growth in both the general and long-term business by 11.0% (€152m) and by 4.0% (€40m) respectively. In 2012, the increase in gross written premium was observed only for general business.

The trend of the gross written premiums between 2009 and 2013 is presented in the chart below:

Figure 3.1.2 Gross written premiums by nature of business between 2009 and 2013

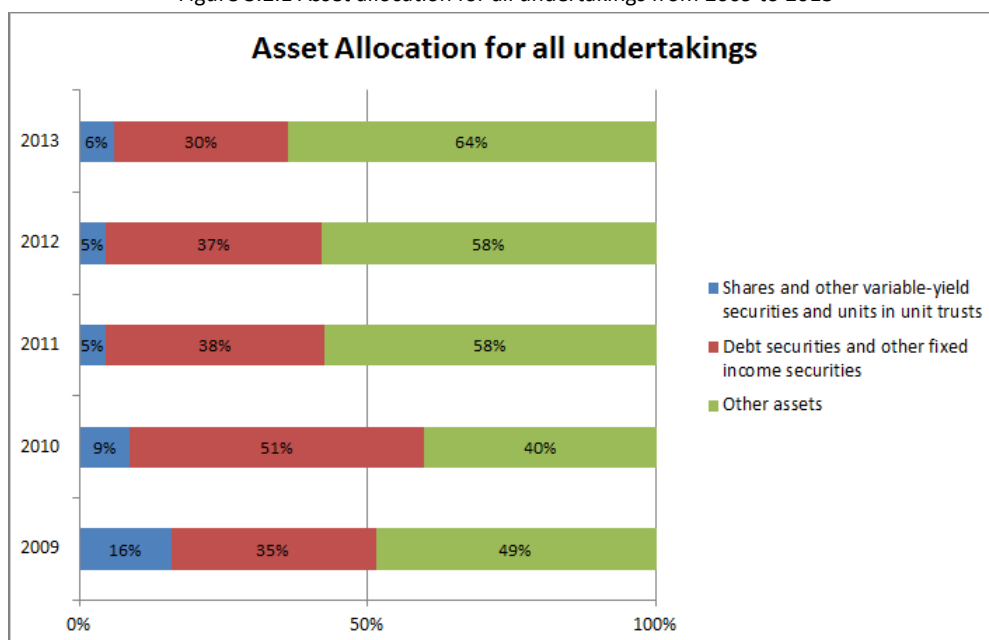


### 3.2. Asset Allocation

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

The chart below shows the asset allocation for all undertakings from 2009 to 2013:

Figure 3.2.1 Asset allocation for all undertakings from 2009 to 2013



**Notes:**

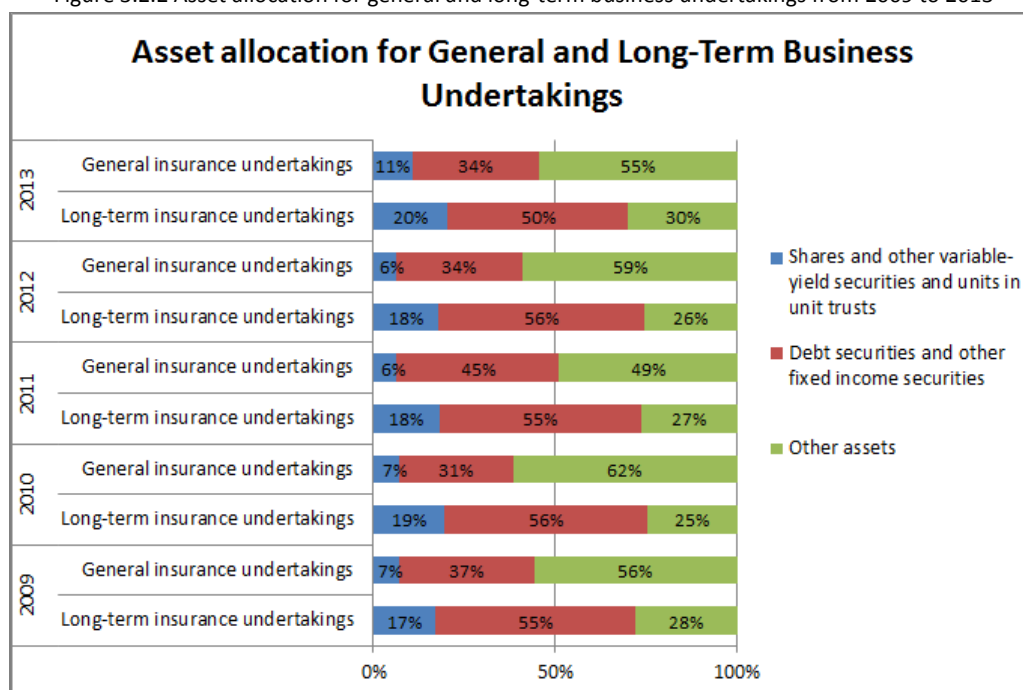
- (1) The other assets category consists mainly of investments in participating interests, deposits with credit institutions and other financial investments and deposits with ceding enterprises.
- (2) The asset allocation data for 2009 does not include the assets allocation for pure reinsurance undertakings,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

In 2013, we observe a decrease in investments in *debt securities and other fixed income securities* and an increase in investments in *other assets*.

For the general business undertakings, the allocation of assets in *debt securities and other fixed income securities* remains unchanged between 2012 and 2013. However, the allocation of *other assets* has decreased and the allocation in *shares and other variable-yield securities and units in unit trusts* has increased in the same period.

For the long-term business undertakings, we observed an increase in the allocation in *shares and other variable-yield securities and units in unit trusts* and *other assets* and a decrease in investments in *debt securities and other fixed income securities*.

Figure 3.2.2 Asset allocation for general and long-term business undertakings from 2009 to 2013

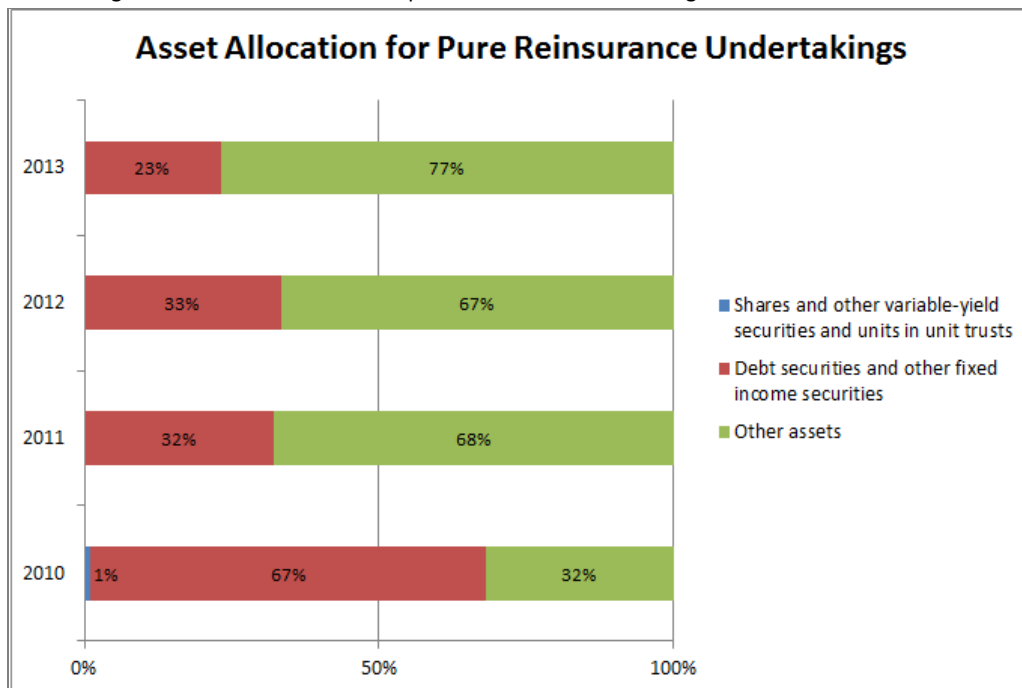


Note:

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

For the pure reinsurance undertakings in 2013, we observed an increase in the allocation for *other assets* and a decrease in the allocation for *debt securities and other fixed income securities*.

Figure 3.2.3 Asset allocation for pure reinsurance undertakings between 2010 and 2013



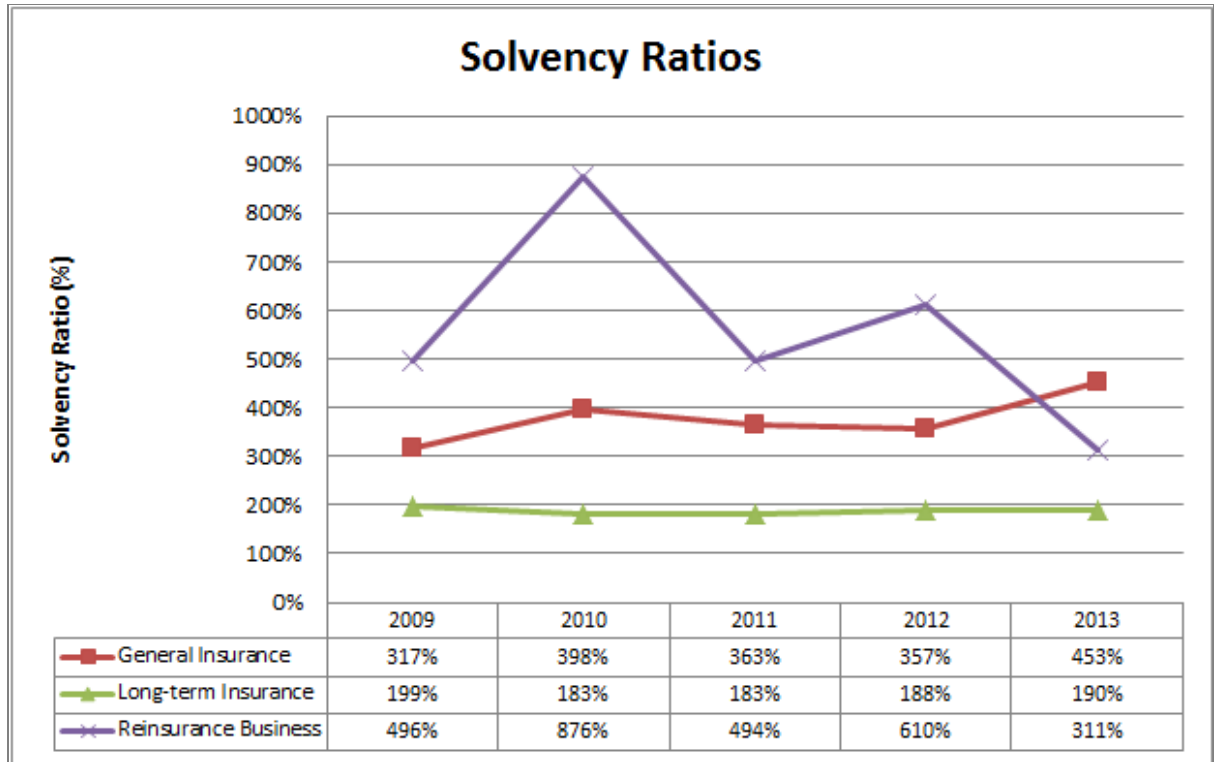
Notes:

- (1) The asset allocation data for pure reinsurance undertakings was not readily available for 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) From 2011 to 2013, 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 2009 to 2013 are shown in the chart below:

Figure 3.3.1 Solvency ratios for all undertakings from 2009 to 2013



The following changes in solvency ratios have been observed between 2012 and 2013:

- Substantial decrease of 299% for pure reinsurance undertakings;
- Increase of 96% for general insurance undertakings;
- Increase of 2% for long-term insurance undertakings.

The substantial decrease in the solvency ratio observed for pure reinsurance undertakings is mainly due to the significant release in own funds in 2013.



## 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 10.97% (€152m) from €1,379m in 2012 to €1,531m in 2013.

The increase between 2012 and 2013 is due to the significant increase in the volume of business written in the *accident and health, motor, aviation, marine and transport, and other* business classes. Over 2013, there has been a reduction in gross written premiums for the *general liability, fire and other damage to property and credit and suretyship* business classes.

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

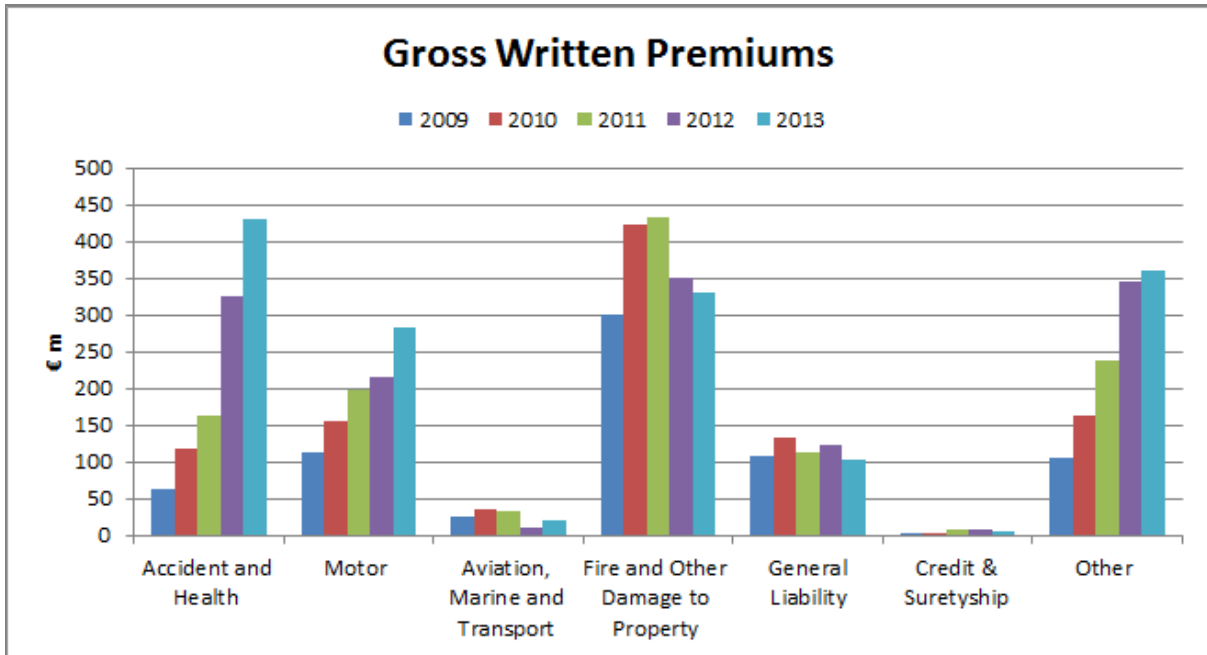
The table below provides a comparison of the gross written premiums between 2009 and 2013 by business:

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

€m	2009	2010	2011	2012	2013	% Change 2012 /2013
Accident and Health	64	117	163	325	429	32%
Motor	111	155	198	216	282	31%
Aviation, Marine and Transport	26	35	34	11	20	86%
Fire and Other Damage to Property	301	422	434	349	330	-6%
General Liability	107	132	112	124	103	-17%
Credit & Suretyship	3	2	7	8	6	-24%
Other*	104	162	238	347	361	4%
<b>Total</b>	<b>716</b>	<b>1,026</b>	<b>1,185</b>	<b>1,379</b>	<b>1,531</b>	<b>11%</b>

\*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 2009 to 2013 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 2009 and 2013.

Figure 4.1.2.1 Breakdown of risks written in and outside of Malta from 2009 to 2013

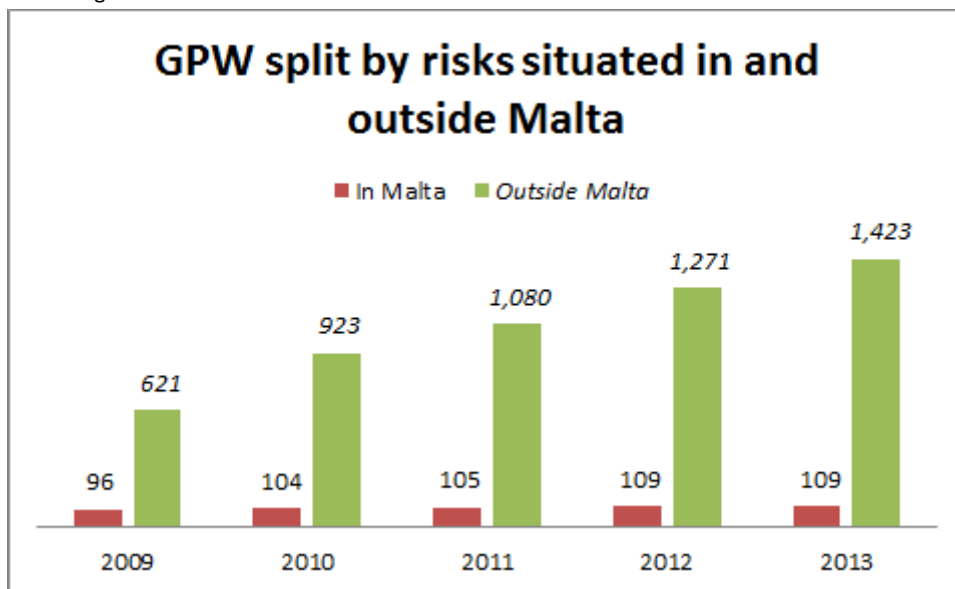
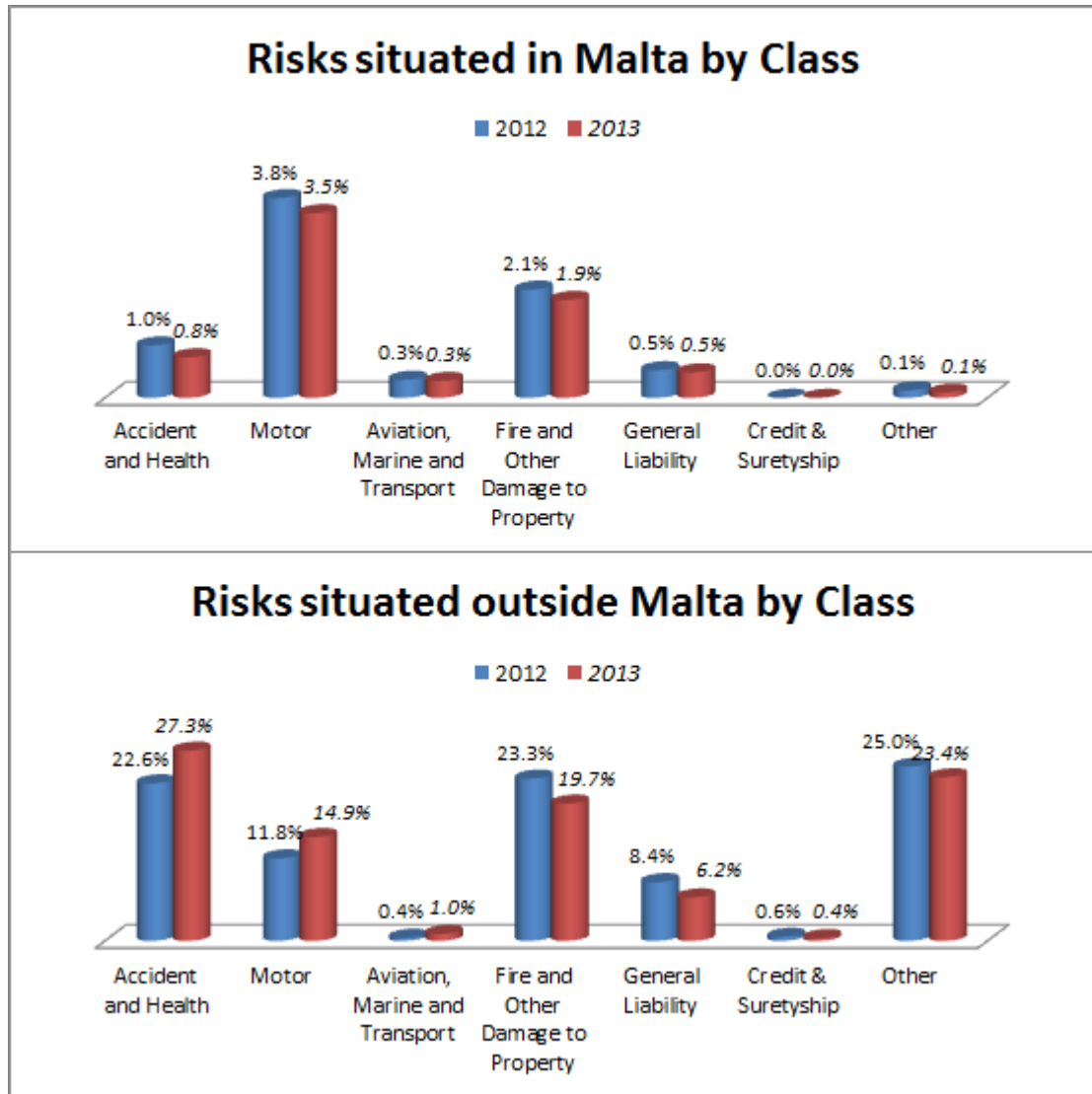


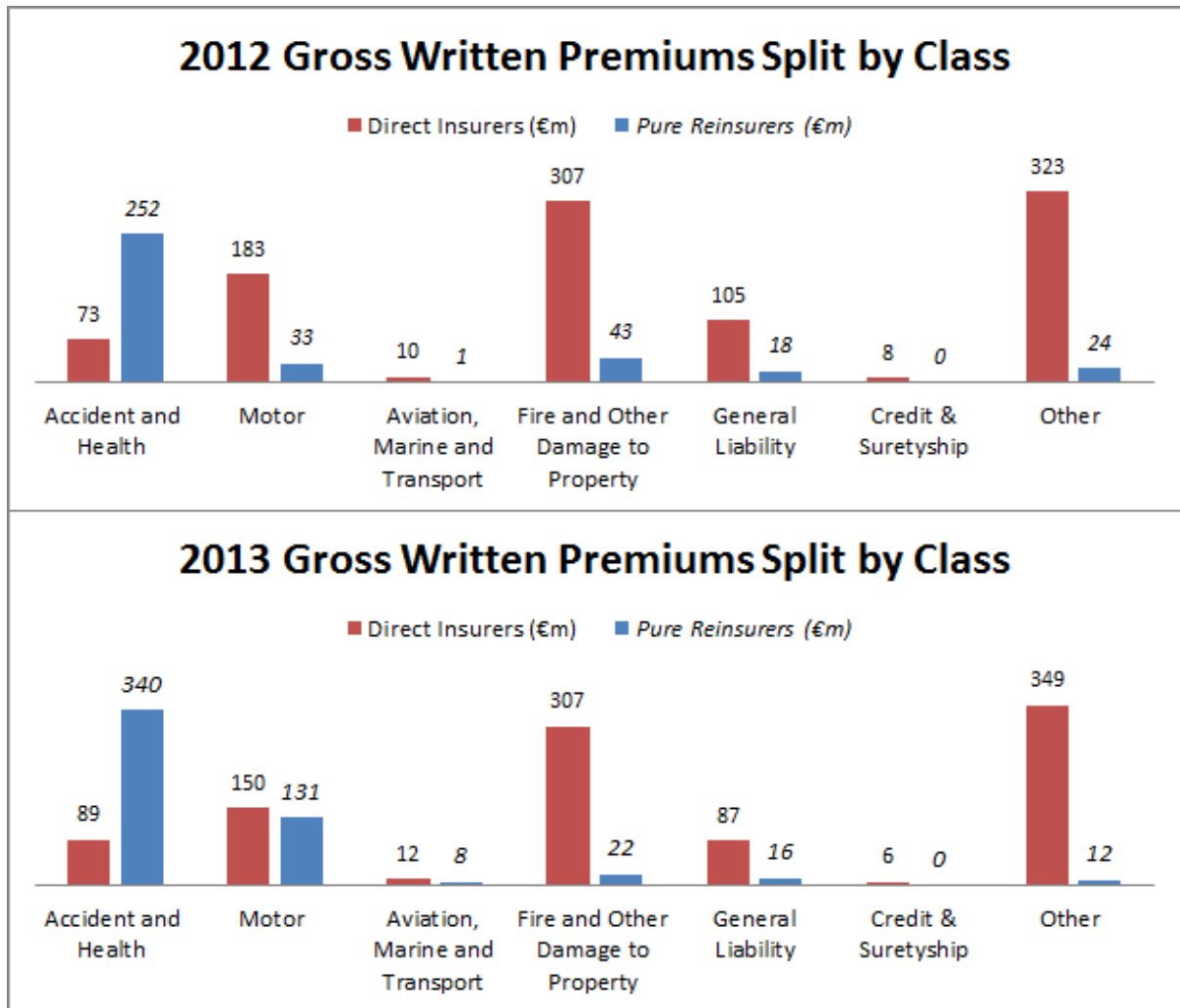
Figure 4.1.2.2 Risks situated in and outside Malta in 2012 and 2013 by business class



### 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 2012 and 2013 by class of business:

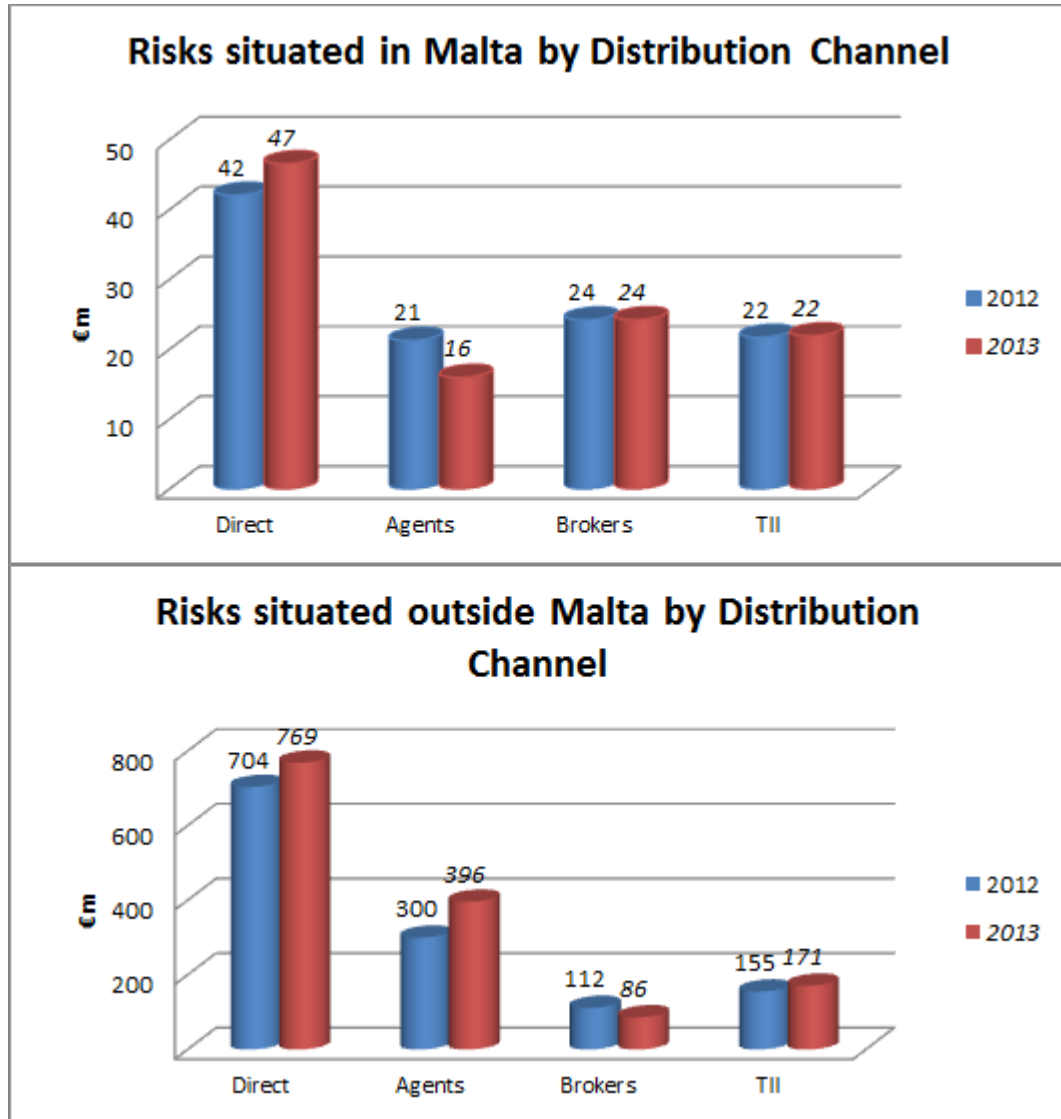
Figure 4.1.3.1 Gross written premiums split between direct insurers and pure reinsurers for 2012 and 2013



## 4.2. Source of Business

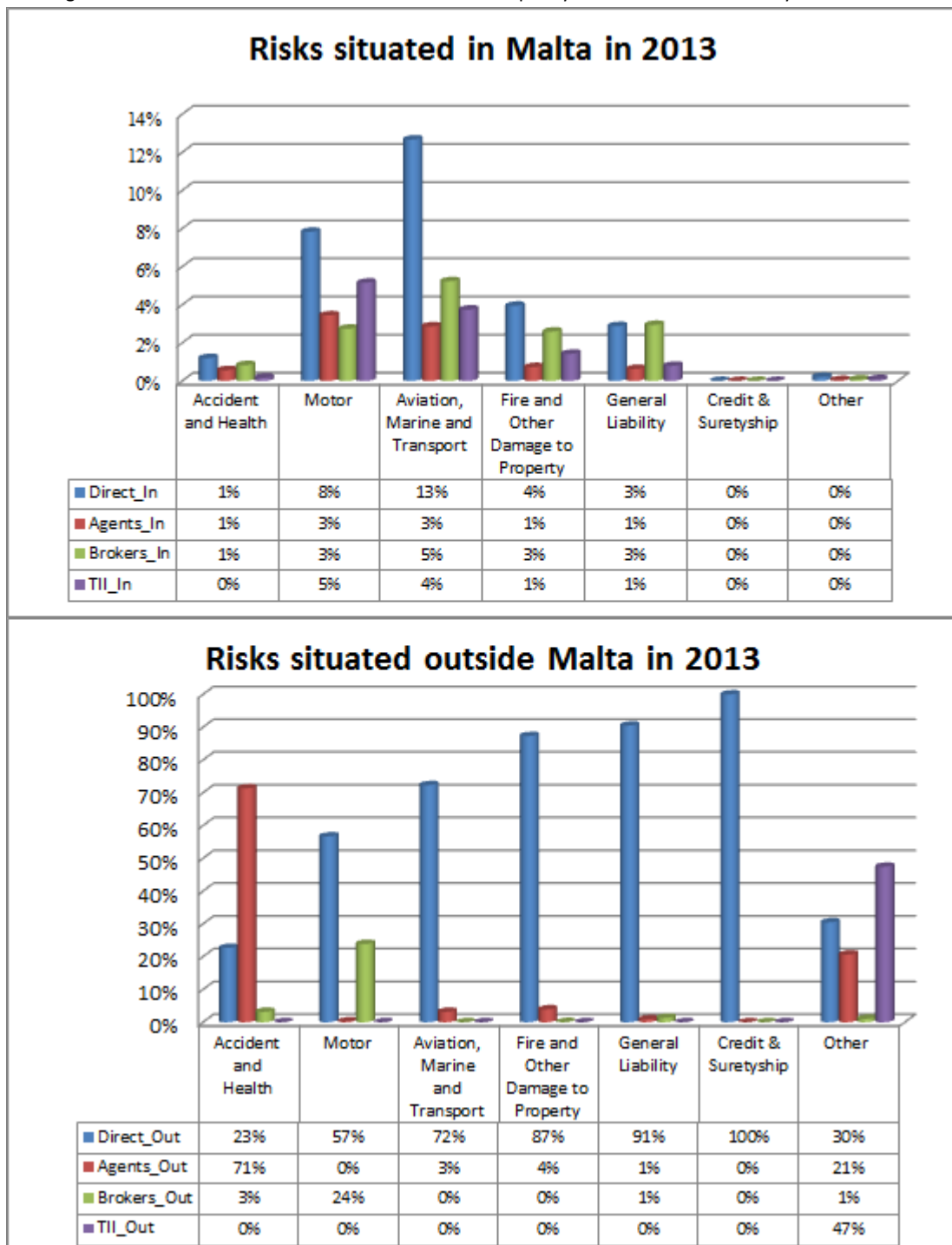
In 2013, the general business sector for risks situated in Malta and outside Malta continues to be mainly directly generated. The business directly sourced by the undertakings accounted for 42.3% (€47m) of the business for risks situated in Malta and 54.1% (€769m) of the business for risks situated outside 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 2013 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

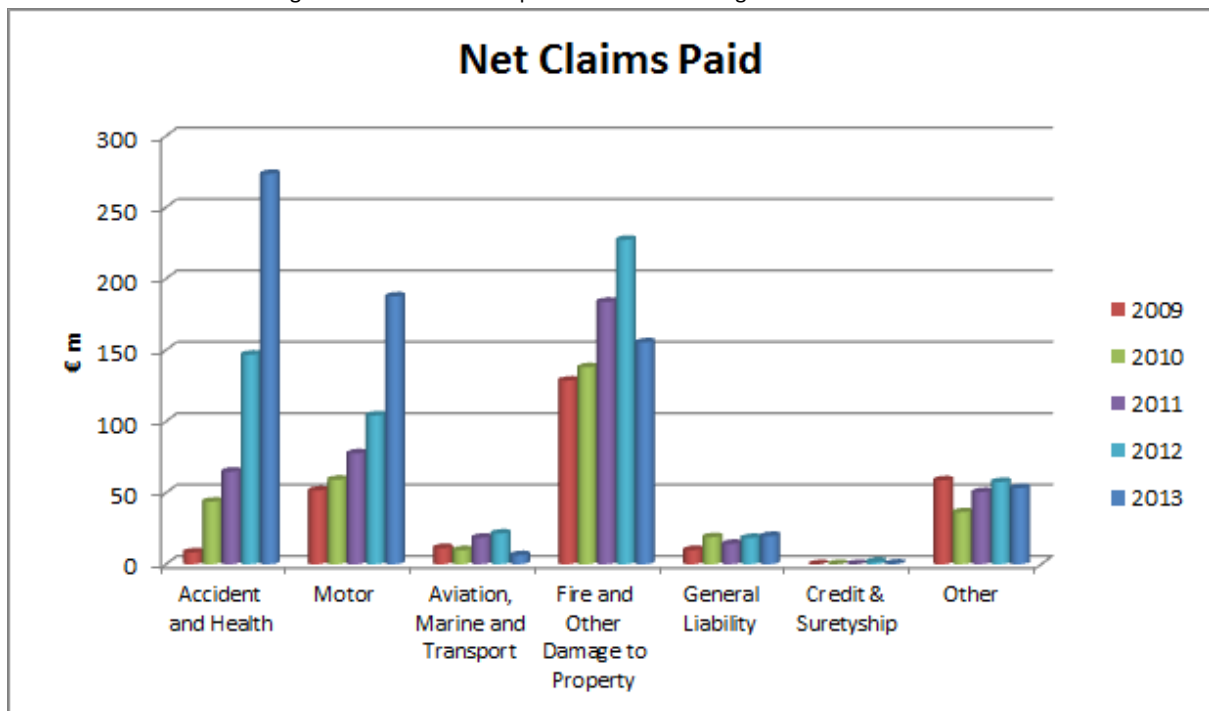
## 4.3. Claims

### 4.3.1. Net Claims Paid

The net claims paid has increased by 21% (€119m) in 2013 [41% (€168m) in 2012] from €577m in 2012 to €696m in 2013.

The most significant increase in percentage terms and in Euro amounts was observed in the *accident and health* business class of 86% and €127m respectively.

Figure 4.3.1.1 Net claims paid for all undertakings from 2009 to 2013



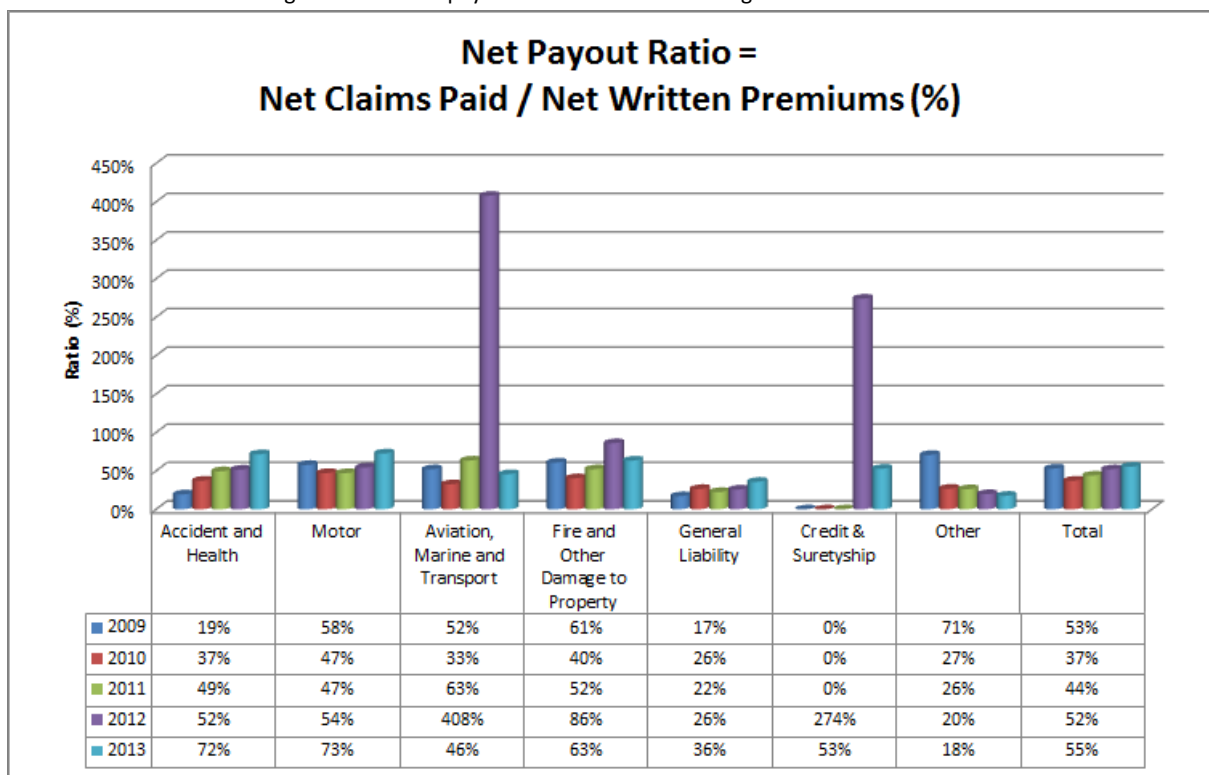
### 4.3.2. Net Payout Ratio

The net payout ratio has increased from 52% in 2012 to 55% in 2013. 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 decreased significantly for the *aviation, marine and transport* and *credit and suretyship* business classes in 2013 due to the decrease in claims paid in 2013.

In 2013, the largest increase of 20% in the net payout ratio was observed in the *accident and health* business class, whilst the largest decrease of 362% was observed in the *aviation, marine and transport* business class.

Figure 4.3.2.1 Net payout ratio for all undertakings from 2009 to 2013



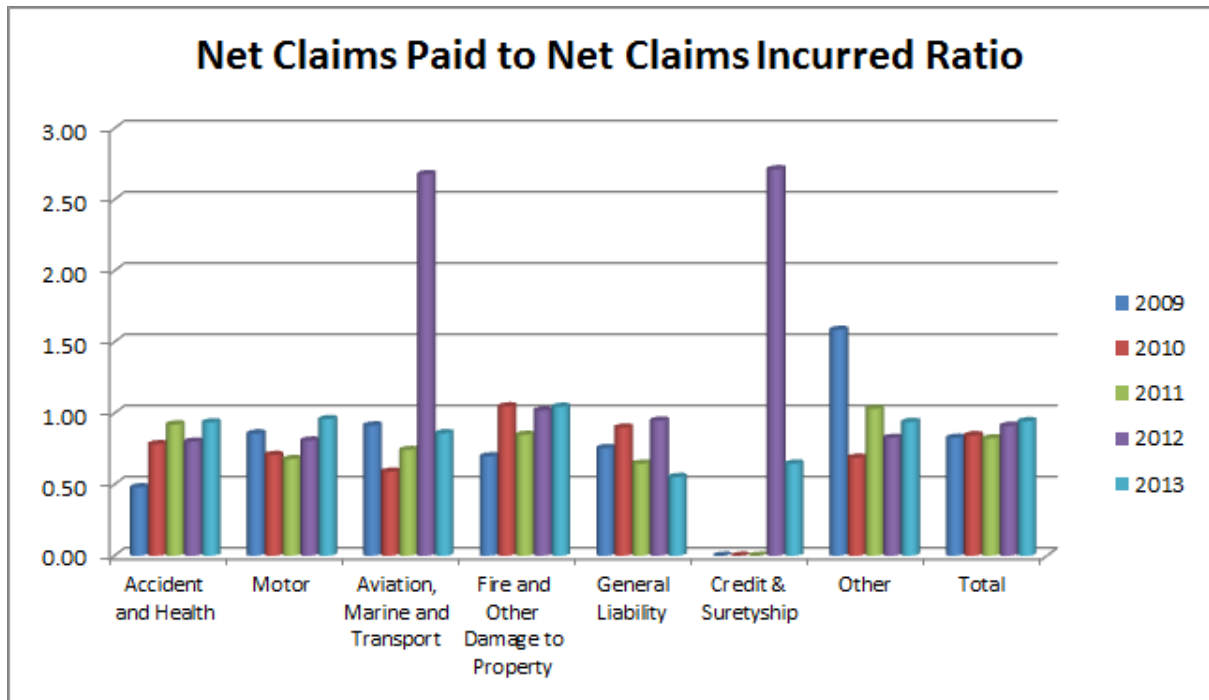


### 4.3.3. Ratio of Net Claims Paid over Net Claims Incurred

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 decreased significantly for the *aviation, marine and transport* and *credit and suretyship* business classes in 2013 due to the decrease in claims paid in 2013.

Figure 4.3.3.1 Net claims paid over net claims incurred for all undertakings from 2009 to 2013

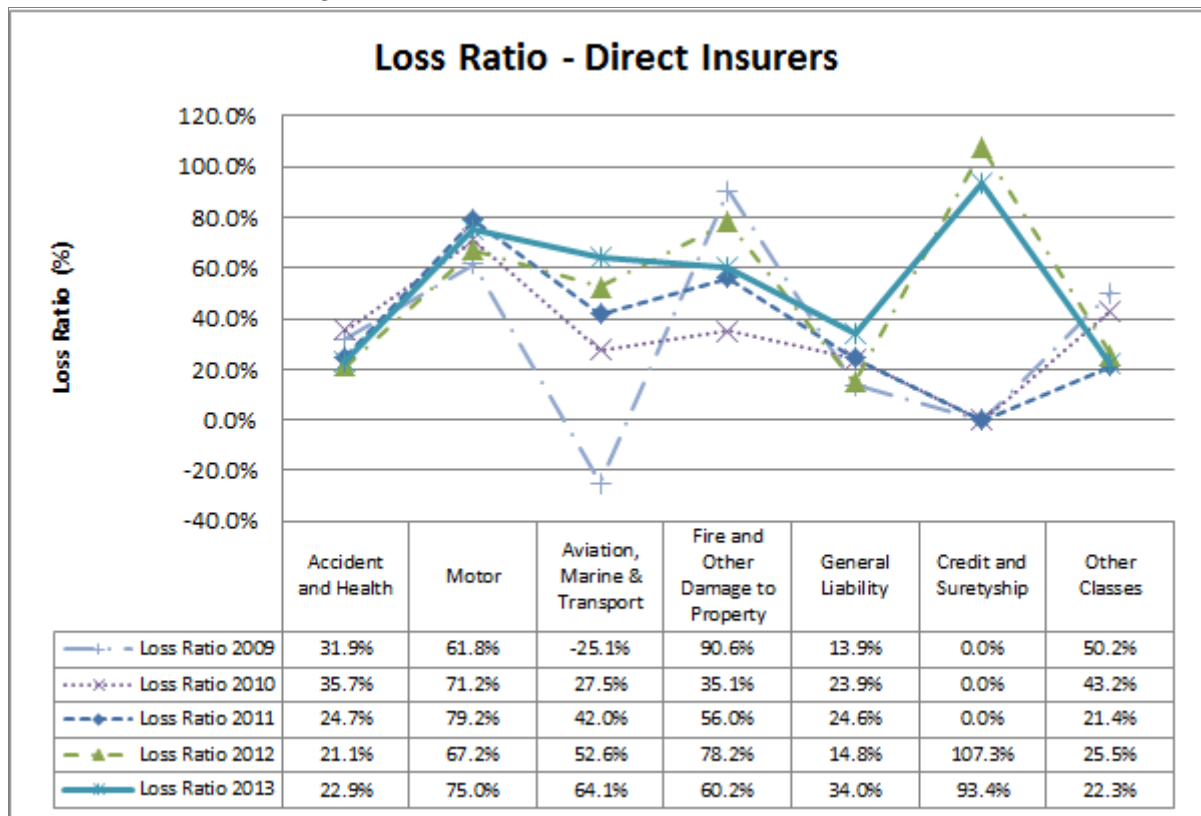


## 4.4. Key Financial indicators for General Business

### 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:

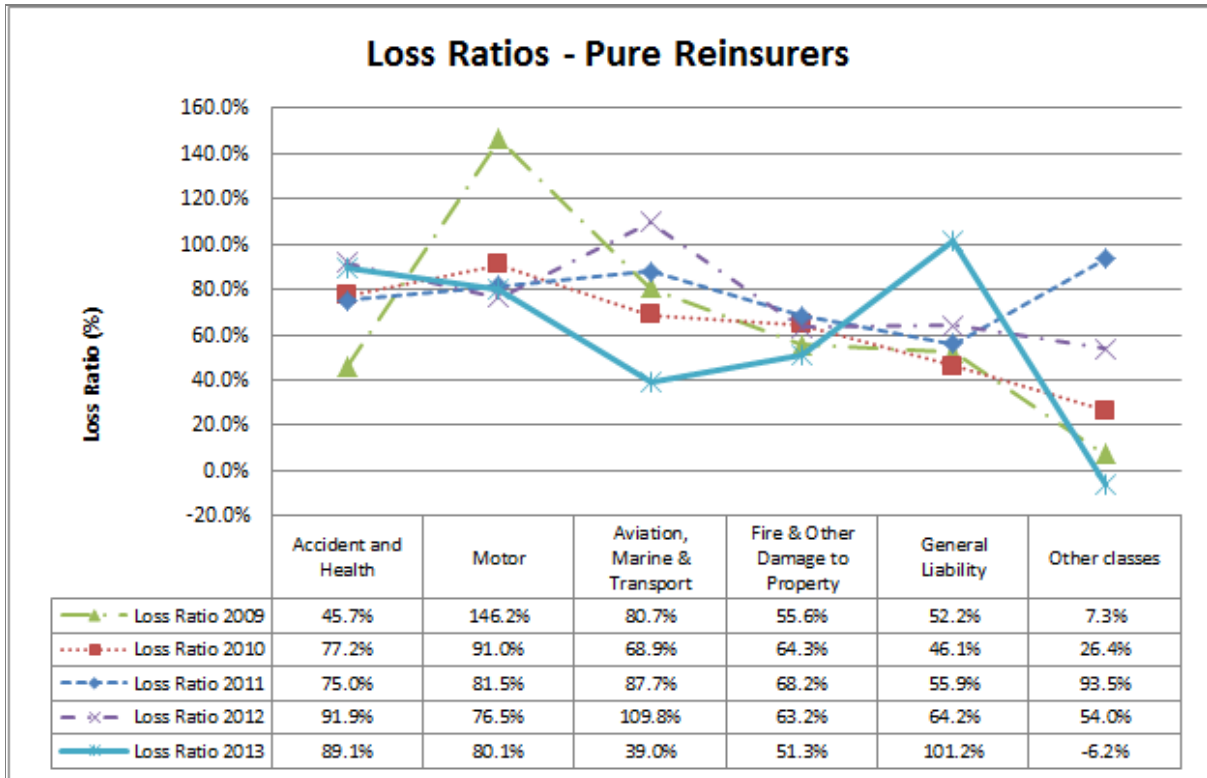
Figure 4.4.1.1 Loss ratios for direct insurers from 2009 to 2013



The loss ratios for the direct insurers have *deteriorated* between 2012 and 2013, in the *accident and health, motor, aviation, marine and transport* and the *general liability* business classes.

Improvements were observed for the *fire and other damage to property, credit and suretyship* and the *other* business classes of 18%, 13.9%, and 3.2% respectively.

Figure 4.4.1.2 Loss ratios for pure reinsurers from 2009 to 2013

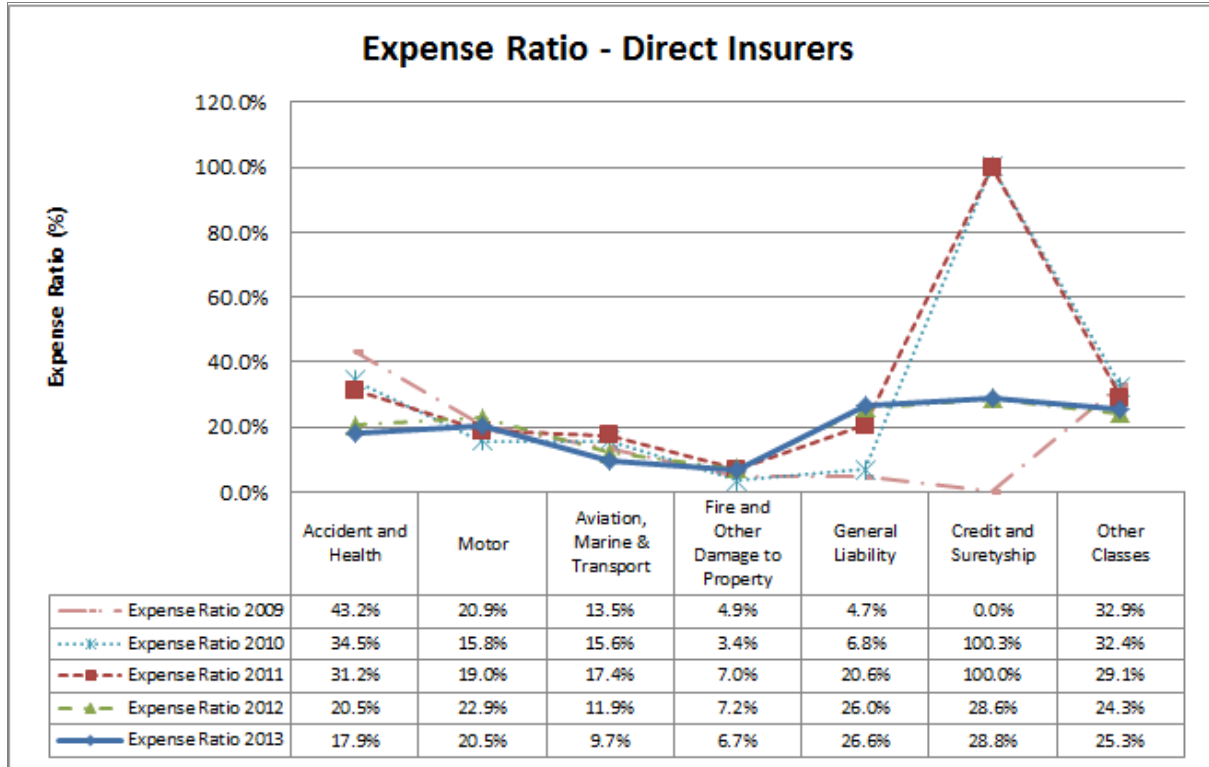


The loss ratios for the pure reinsurers have *deteriorated* between 2012 and 2013 for the *motor* and the *general liability* business classes. Improvements were observed in the *accident and health*, *aviation, marine and transport*, *fire and other damage to property* and the *other* business class of 2.8%, 70.8%, 11.9% and 60.2% respectively.

#### 4.4.2. Expense ratio

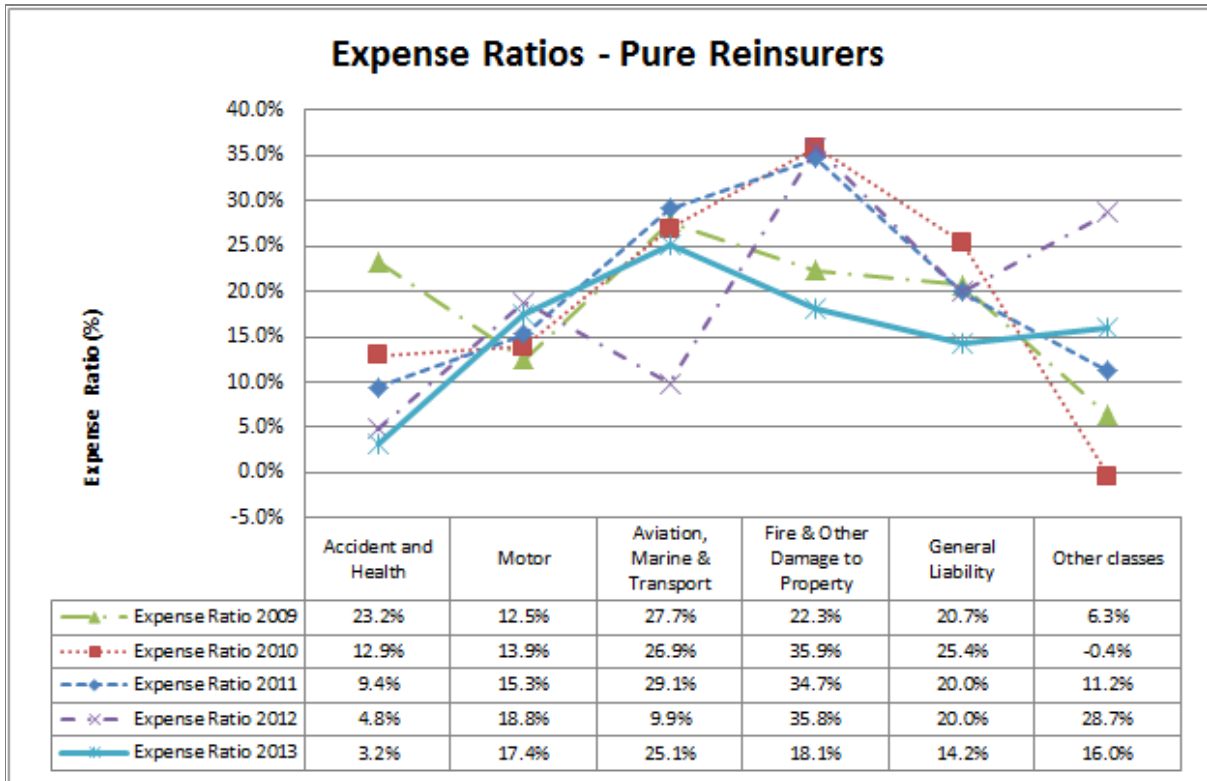
The expense ratio is calculated as the net operating expenses over the net earned premiums. The expense ratios for direct insurers and pure reinsurers are presented in the charts below:

Figure 4.4.2.1 Expense ratios for direct insurers from 2009 to 2013



The expense ratios for direct insurers have decreased between 2012 and 2013 for all business classes except for the *general liability*, *credit and suretyship* and the *other* business classes, which have *increased* insignificantly.

Figure 4.4.2.2 Expense ratios for pure reinsurers from 2009 to 2013

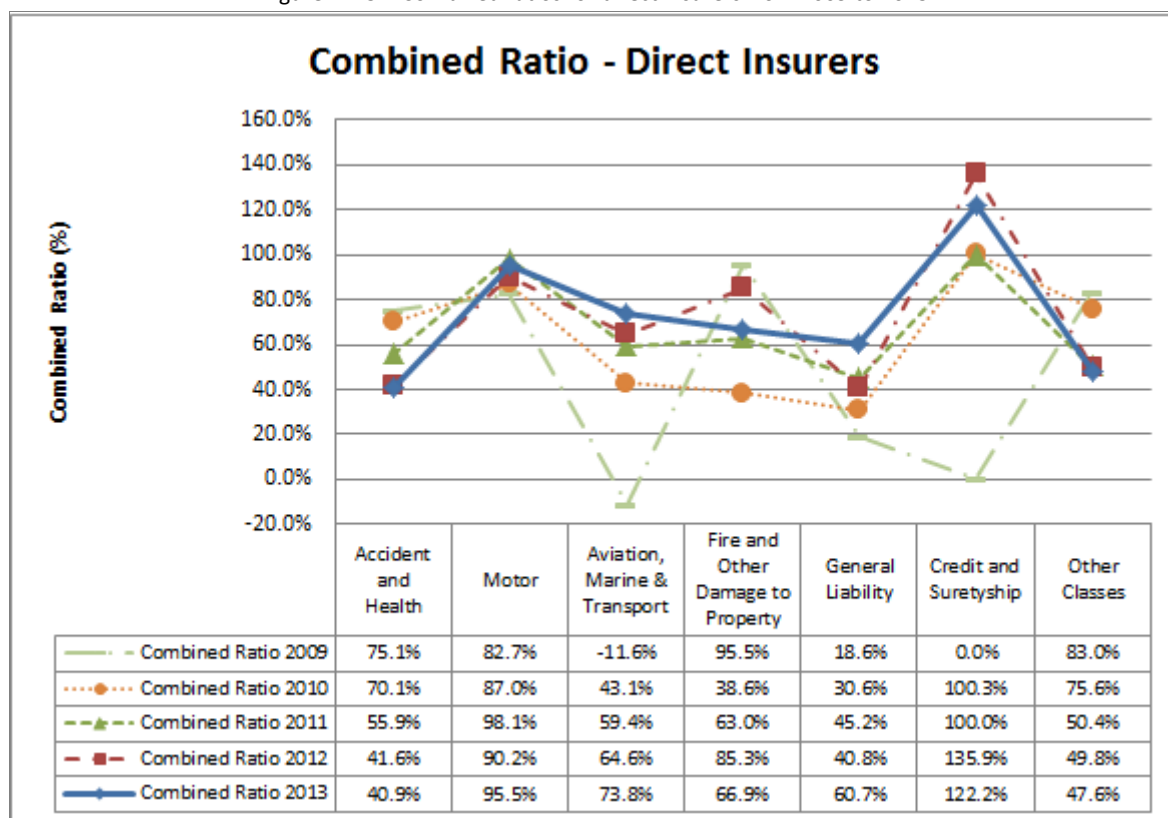


The expense ratio for pure reinsurers has *increased* between 2012 and 2013 for the *aviation, marine and transport* business class. For the remaining classes of insurance, the *accident and health, motor, fire and damage to property, general liability* and the *other* business classes, the ratios have decreased by 1.6%, 1.4%, 17.7%, 5.8% and 12.7% 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 2009 to 2013

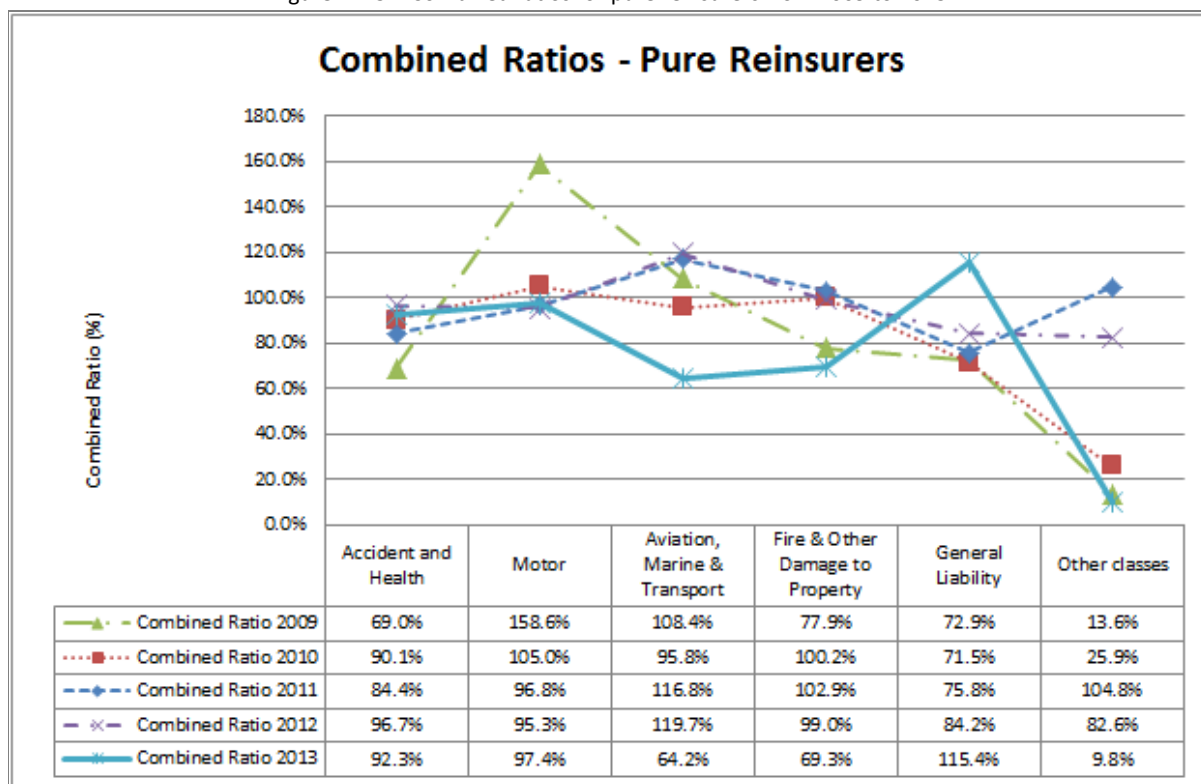


The combined ratios of the direct insurers have decreased for most business classes between 2012 and 2013 except for the *motor*, *aviation, marine & transport*, and the *general liability* business classes, which have *increased* by 5.3%, 9.2%, and 19.9% respectively.

The changes in the combined ratios between 2012 and 2013 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	-0.7%	1.8%	-2.6%
Motor	5.3%	7.8%	-2.4%
Aviation, Marine and Transport	9.2%	11.5%	-2.2%
Fire and Other Damage to Property	-18.4%	-18.0%	-0.5%
General Liability	19.9%	19.2%	0.6%
Credit & Suretyship	-13.7%	-13.9%	0.2%
Other	-2.2%	-3.2%	1.0%

Figure 4.4.3.2 Combined ratios for pure reinsurers from 2009 to 2013



The combined ratios of the pure reinsurers have also *increased* between 2012 and 2013 for all business classes except for the *accident and health, aviation, marine and transport, fire and other damage to property* and the *other* business classes, which have decreased by 4.4%, 55.5%, 29.7%, and 72.8% respectively.

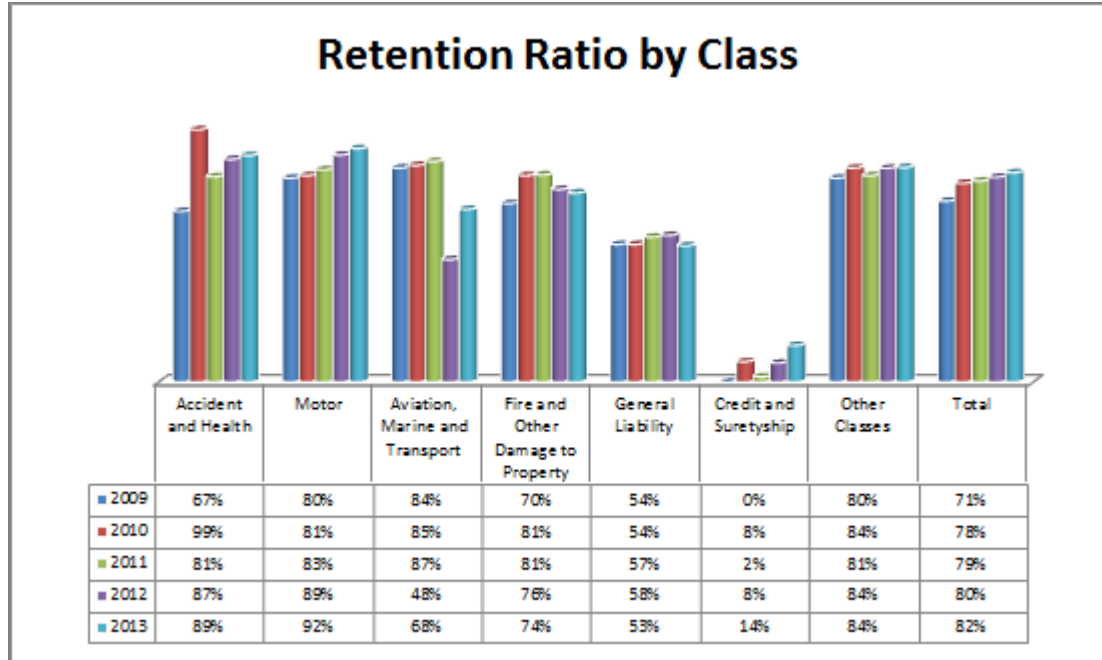
The changes in the combined ratios between 2012 and 2013 by business class for the pure reinsurers can be explained by the movements in the loss ratios and expense ratios as summarised in the table below:

Class of Business	Combined Ratio	Loss Ratio	Expense Ratio
Accident and Health	-4.4%	-2.8%	-1.6%
Motor	2.2%	3.6%	-1.4%
Aviation, Marine and Transport	-55.5%	-70.8%	15.3%
Fire and Other Damage to Property	-29.7%	-12.0%	-17.7%
General Liability	31.2%	37.0%	-5.8%
Other	-72.9%	-60.2%	-12.7%

#### 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 2009 to 2013 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 increased by 3.9% (€40m) in 2013 from €1,009m in 2012 to €1,049m in 2013, compared to a decrease of 1.3% (€13m) in 2012. This increase is due to the decrease in volume of business written by direct insurers.

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 2013 (90% in 2012).

#### 5.1.1. Comparison of Gross Written Premiums by class of insurance

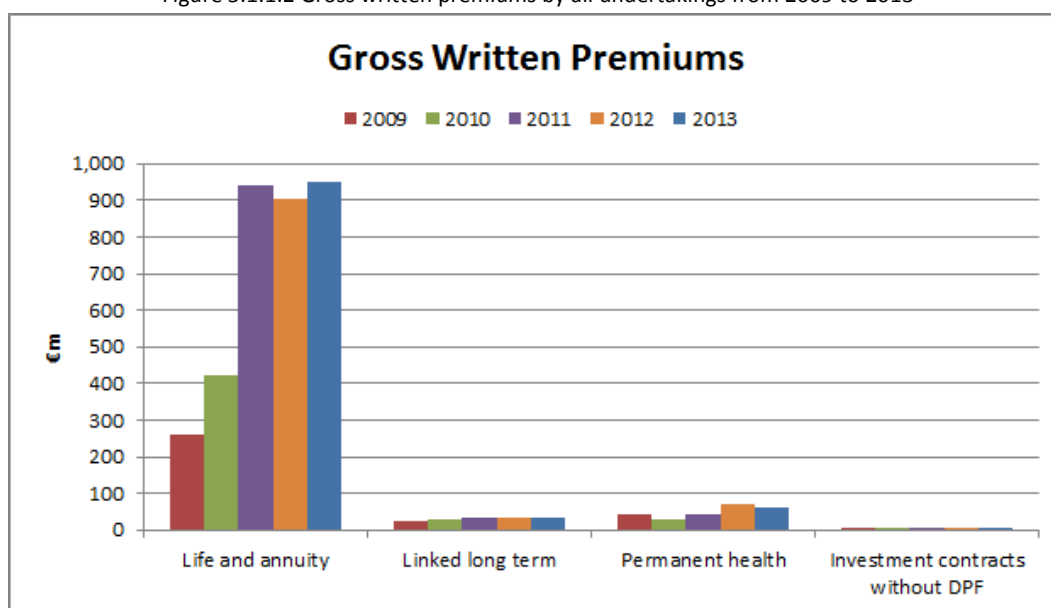
The table shows how the gross written premiums have developed between 2009 and 2013 by class of business:

Table 5.1.1.1 Gross written premiums by all undertakings from 2009 to 2013

€ m	2009	2010	2011	2012	2013	% Change 2012/2013
Life and annuity	259	422	941	903	949	5.1%
Linked long term	23	27	33	35	34	-2.1%
Permanent health	43	28	45	69	60	-12.6%
Investment contracts <i>without</i> DPF	3	7	4	2	5	179.4%
<b>Total</b>	<b>327</b>	<b>485</b>	<b>1,022</b>	<b>1,009</b>	<b>1,049</b>	<b>3.9%</b>

The chart below provides a comparison of the gross written premiums from 2009 to 2013:

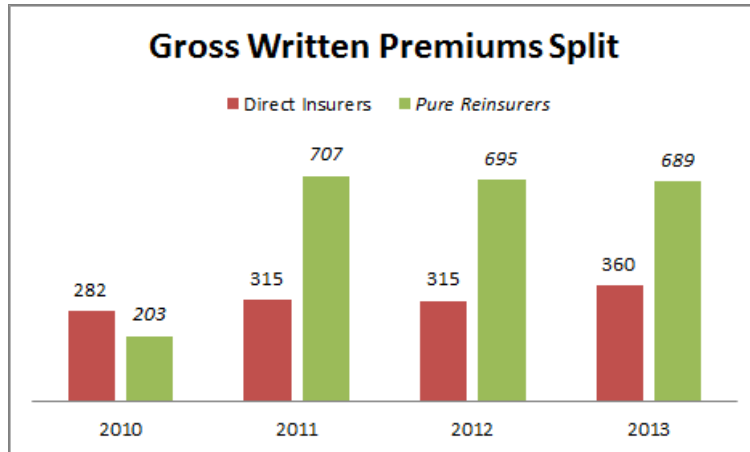
Figure 5.1.1.2 Gross written premiums by all undertakings from 2009 to 2013



### 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 2013 is shown in the chart below:

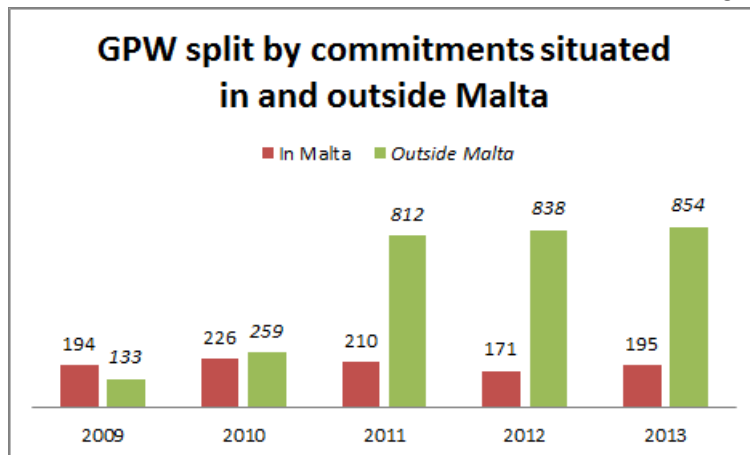
Figure 5.1.2.1 Gross written premiums split between direct insurers and pure reinsurers between 2010 and 2013



### 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 2009 to 2013



In respect of commitments *situated in Malta* in 2012 and 2013, the gross written premiums for direct insurance business have increased by 13.7%, whilst a 21.2% increase was observed for reinsurance business.

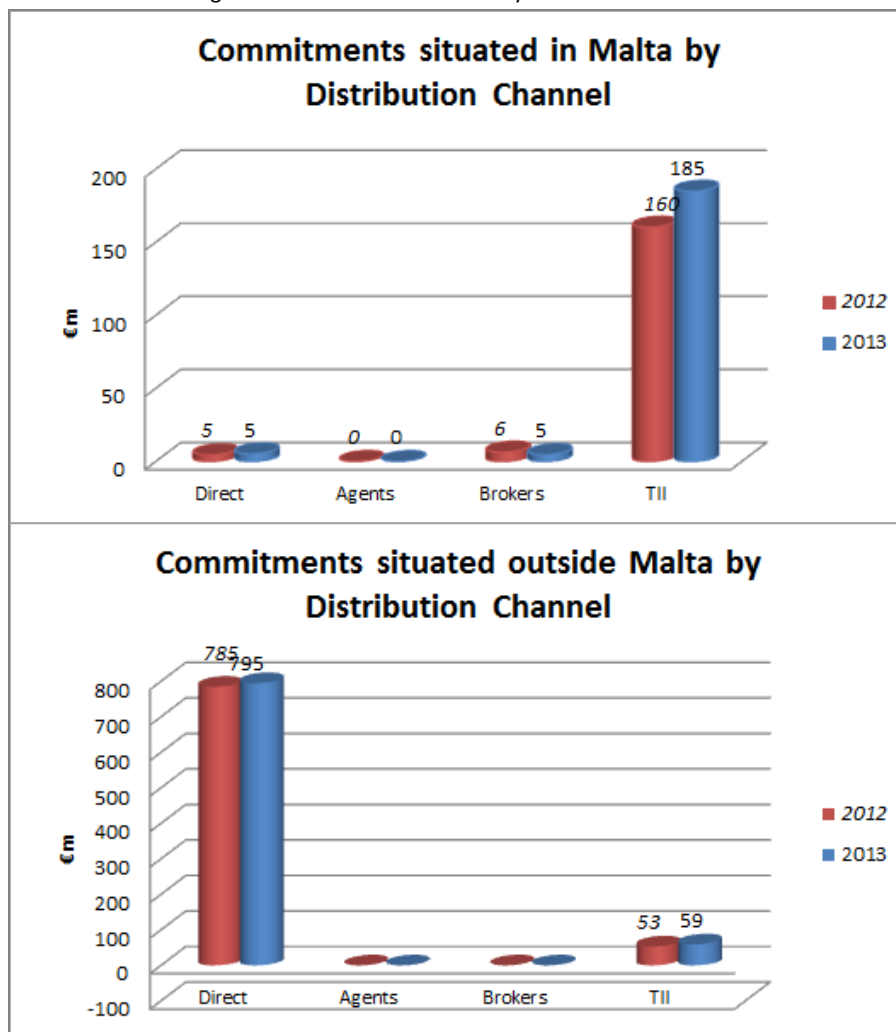
In respect of commitments *situated outside Malta* in 2012 and 2013, there has been a 14.1% increase in the gross written premiums for direct insurance business and a 0.6% decrease for reinsurance business.

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

## 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 2013. The business generated by TIIs account for 94.9% (€185m) [93.6% (€160m) in 2012] of the business with 2.7% (€5m) [2.7% (€5m) in 2012] of the business generated directly. A very insignificant volume of new business was sourced directly and through agents in 2013.

Figure 5.2.1 Source of business by distribution channel



For the commitments situated outside Malta, 93.1% (€795m) [93.6% (€785m) in 2012] of the business is generated directly and the remaining 6.9% (€59m) [6.4% (€53m) in 2012] is generated by TII.

### 5.3. Technical Provisions

The table below provides the breakdown of the technical provisions from 2009 to 2013.

Table 5.3.1 Technical provisions from 2009 to 2013 in total

Year	Gross (€m)	Reinsurance Ceded (€m)	Net of Reinsurance (€m)
2009	1,508	17	1,491
2010	1,733	31	1,703
2011	5,265	48	5,218
2012	5,197	69	5,128
2013	6,067	81	5,986

The charts below provide a split of the gross and net technical provisions from 2009 to 2013:

Figure 5.3.2 Split of gross and net technical provisions in total from 2009 to 2013

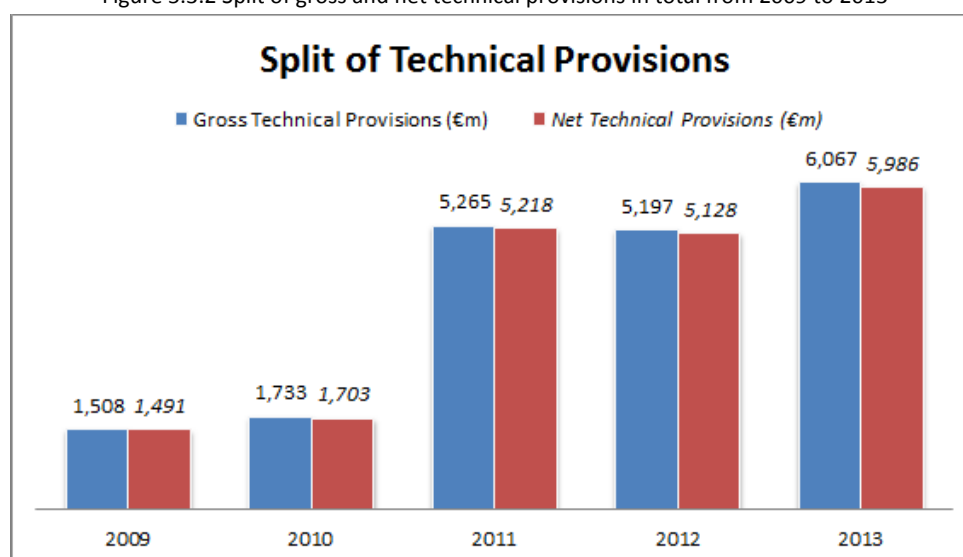
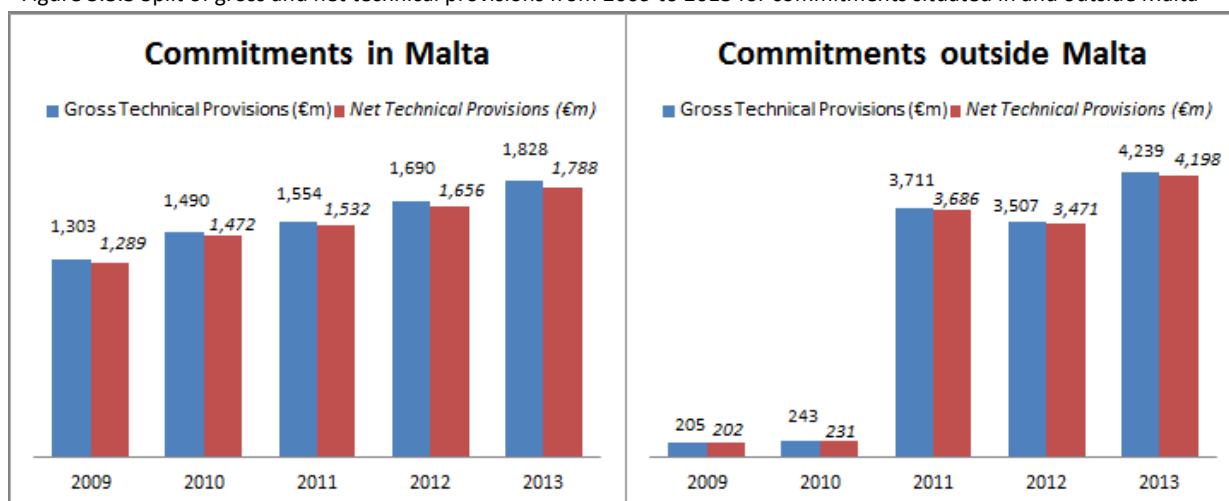


Figure 5.3.3 Split of gross and net technical provisions from 2009 to 2013 for commitments situated in and outside Malta



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.

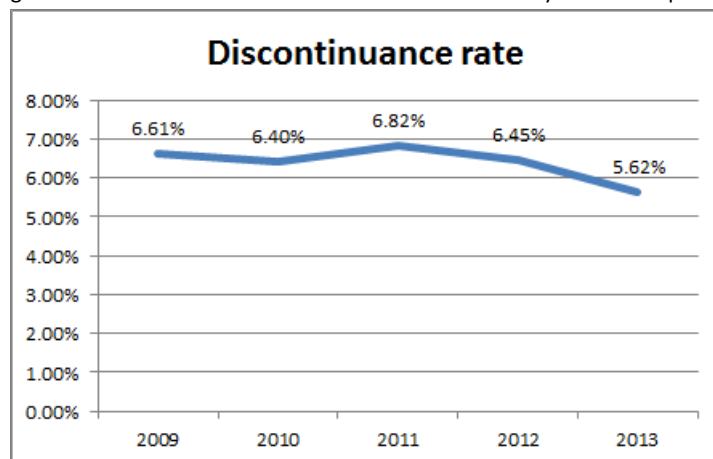
## 5.4. Analysis of Decrements

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 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

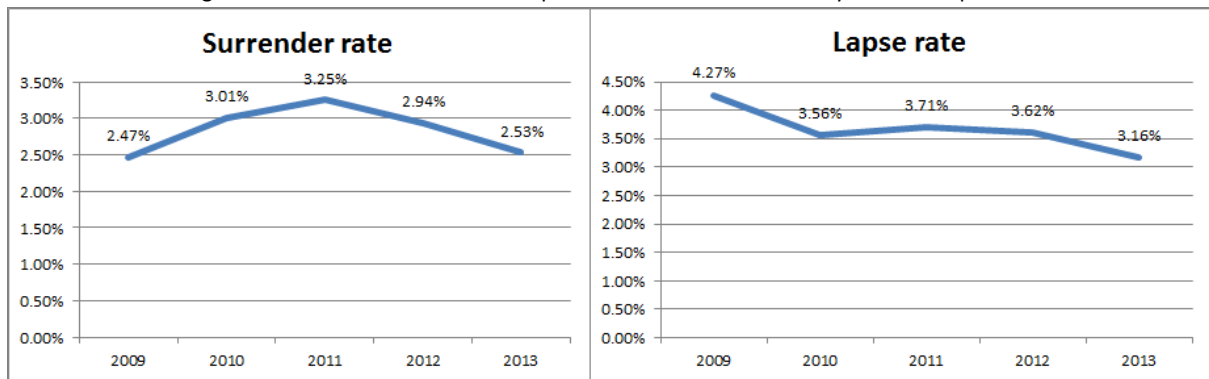
The discontinuance rate experienced by long-term business undertakings writing business in Malta has decreased between 2012 and 2013 by number of policies. The trend of discontinuance rates by number of policies between 2009 and 2013 is shown below:

Figure 5.4.1.1 Discontinuance rates from 2009 to 2013 by number of policies



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

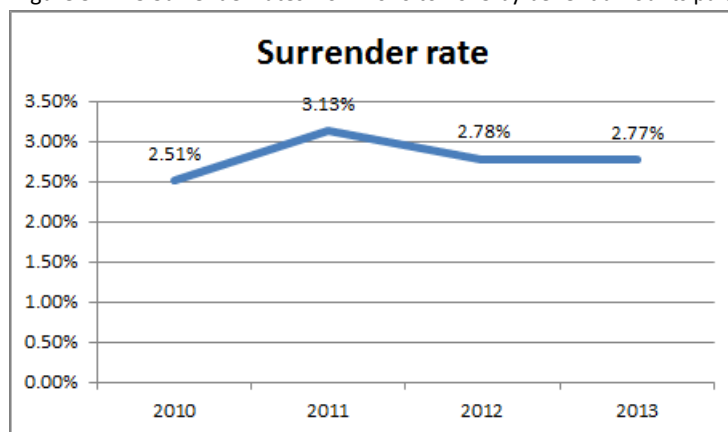
Figure 5.4.1.2 Surrender rates and lapse rates from 2009 to 2013 by number of policies



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 2013 by benefit amounts paid

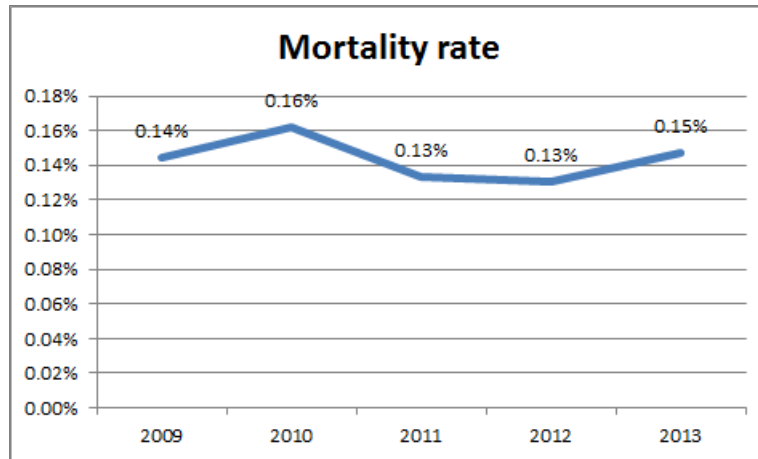


*Note: Data was not readily available 2009*

## 5.4.2. Mortality Rates

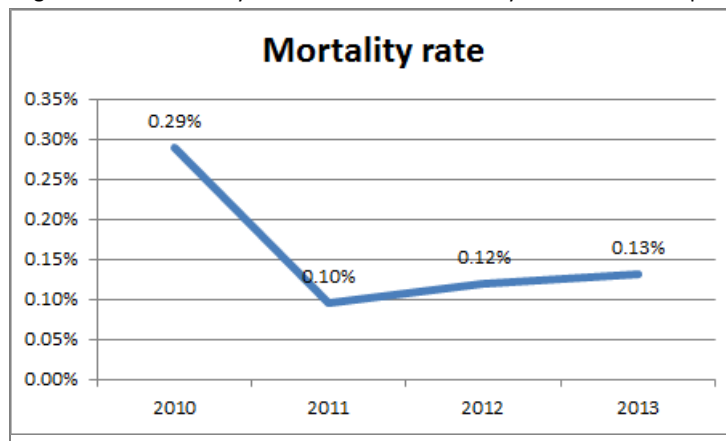
The mortality rate experienced by long-term business undertakings writing business in Malta has increased between 2012 and 2013 by number of policies and by benefit amounts paid. The trend of mortality rates by number of policies between 2009 and 2013 is shown below:

Figure 5.4.2.1 Mortality rates from 2009 to 2013 by number of policies



The trend of mortality rates by the amount of benefits paid between 2010 and 2013 is shown below:

Figure 5.4.2.2 Mortality rates from 2010 to 2013 by benefit amounts paid



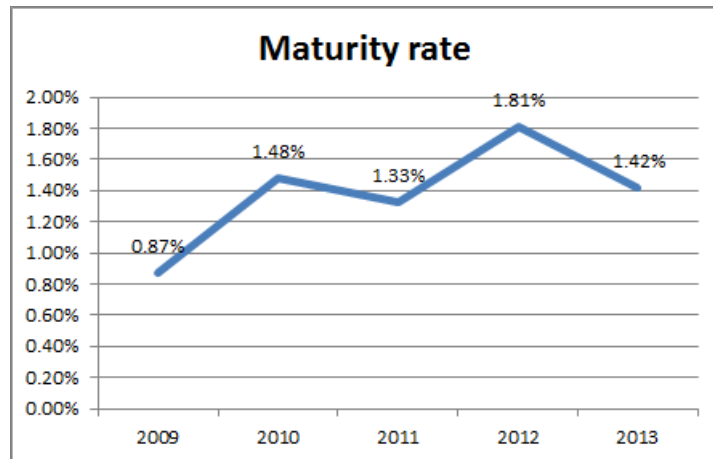
*Note: Data was not readily available for 2009*

### 5.4.3. Maturity Rates

The maturity rate experienced by long-term business undertakings writing business in Malta has decreased from 2012 to 2013 by number of policies and by benefit amounts paid. The maturities mainly arise from the experience of the with-profits endowment contracts.

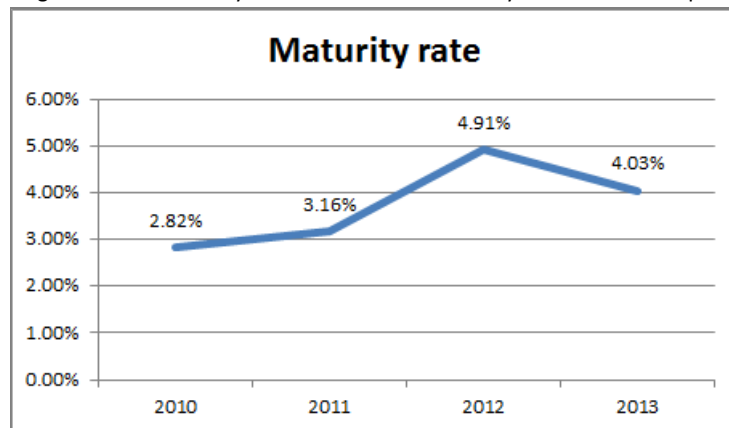
The trend of maturity rates between 2009 and 2013 is shown below:

Figure 5.4.3.1 Maturity rates from 2009 to 2013 by number of policies



The trend of maturity rates by the amount of benefits paid between 2010 and 2013 is shown below:

Figure 5.4.3.2 Maturity rates from 2010 to 2013 by benefit amounts paid



*Note: Data was not readily available for 2009*



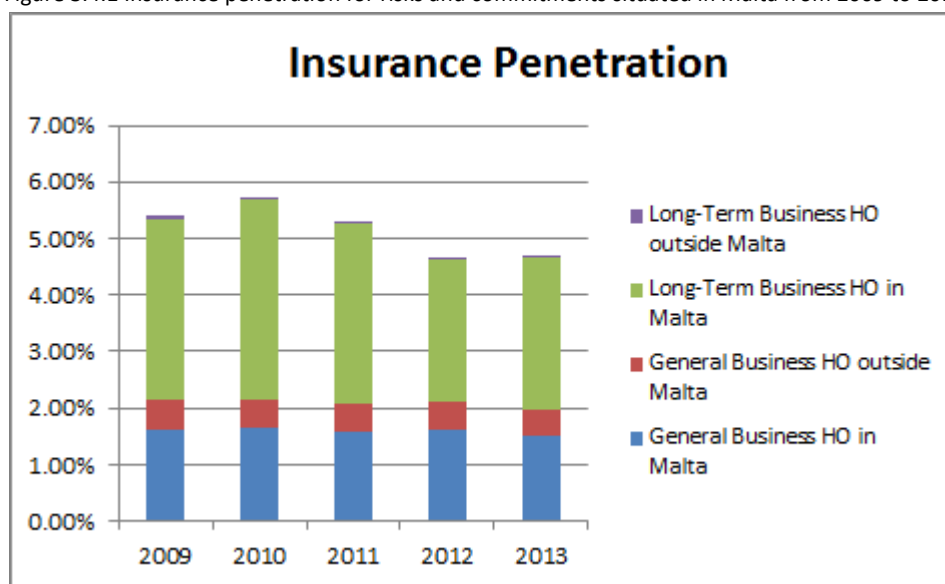
## 6. Insurance Penetration of the Domestic Insurance Market

The gross domestic product in real terms for 2013 was €7.3bn (€6.8bn in 2012), an increase of 6.8% from 2012.

The insurance penetration rate, defined as the total gross written premiums with respect to Maltese commitments Malta as a share of the gross domestic product has remained at about 4.7% in 2013.

For the general business, the penetration rate decreased by 0.1% from 2.1% in 2012 to 2.0% in 2013. However, for the long-term business, the rate increased by 0.1%, from 2.6% in 2012 to 2.7% in 2013.

Figure 3.4.1 Insurance penetration for risks and commitments situated in Malta from 2009 to 2013



**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 2014.

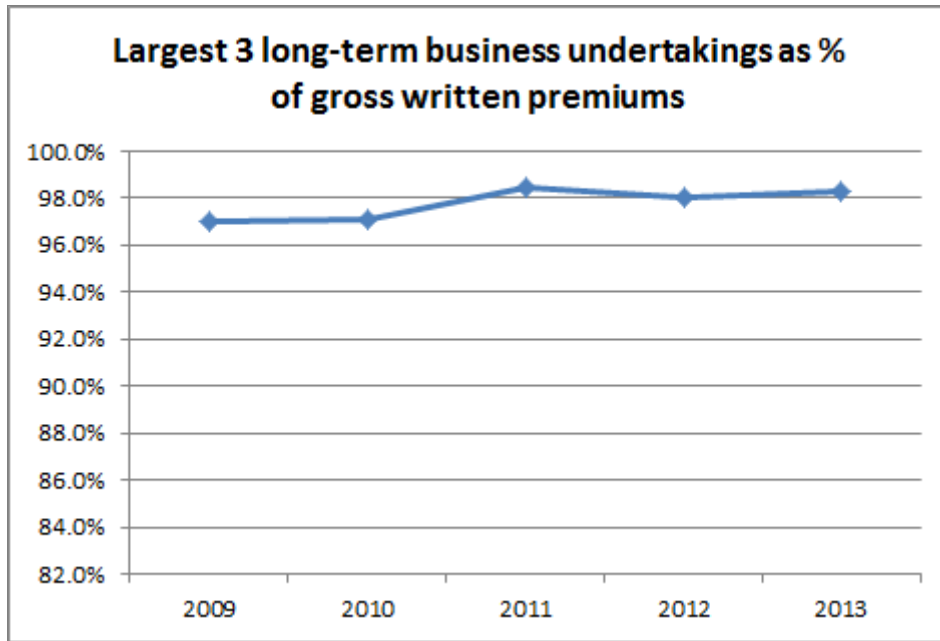
In 2013, we observe an increase in the penetration rate for undertakings with head office (HO) in Malta which is mainly due to the increase in the gross written premiums by the long-term business undertakings. The penetration rates for undertakings with HO outside Malta which writes long-term business 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 98.3% (98.1% in 2012) of the total long-term insurance gross written premiums for commitments in Malta.

Figure 3.5.1 Largest 3 long-term business undertakings



The largest three general business undertakings wrote 53.4% (58.4% in 2012) of the total general insurance gross written premiums for risks situated in Malta.

Figure 3.5.2 Largest 3 general business undertakings

