

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

**INSURANCE AND PENSIONS
SUPERVISION UNIT**

Insurance Statistical Review 2011

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1. Introduction

The MFSA recently published the statistics for general and long-term insurance and reinsurance business in respect of undertakings with head offices (HO) in Malta, as at 31st December 2011. This report provides the commentary on the published statistics.

2. Purpose of this report

This report provides the following:

- (1) An analysis of the insurance and reinsurance business in 2011;
- (2) Comparisons for 5 years from 2007 to 2011 (where data for all 5 years are not readily available, this is indicated in the relevant sections);
- (3) Explanations for any significant changes since 2010.

For the purposes of this document:

- (1) Note that all the figures in this report 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.

3. Industry Overview

As at 31st December 2011, 54 undertakings were authorised by the Malta Financial Services Authority (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 in 2010 and 2011:

Table 3.1 Breakdown of authorised undertakings by nature of business in 2010 and 2011

Nature of business	2010	2011
General	33	37
Life	8	8
Composite	2	2
Reinsurers	7	7
Total	50	54

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

3.1.Gross Written Premiums

A 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 2007 and 2011

Nature of business	2007 (€m)	2008 (€m)	2009 (€m)	2010 (€m)	2011 (€m)	% Change 2010/2011
General business	509	650	716	1,026	1,185	15%
Long-term business	265	221	327	485	1,022	111%
Total	774	871	1,044	1,511	2,208	46%

The total gross written premiums have increased by 46% from €1,511m in 2010 to €2,208m in 2011. A similar increase of 45% was seen between 2009 and 2010. The increase between 2010 and 2011 is mainly due to the increase in long-term reinsurance business written outside Malta.

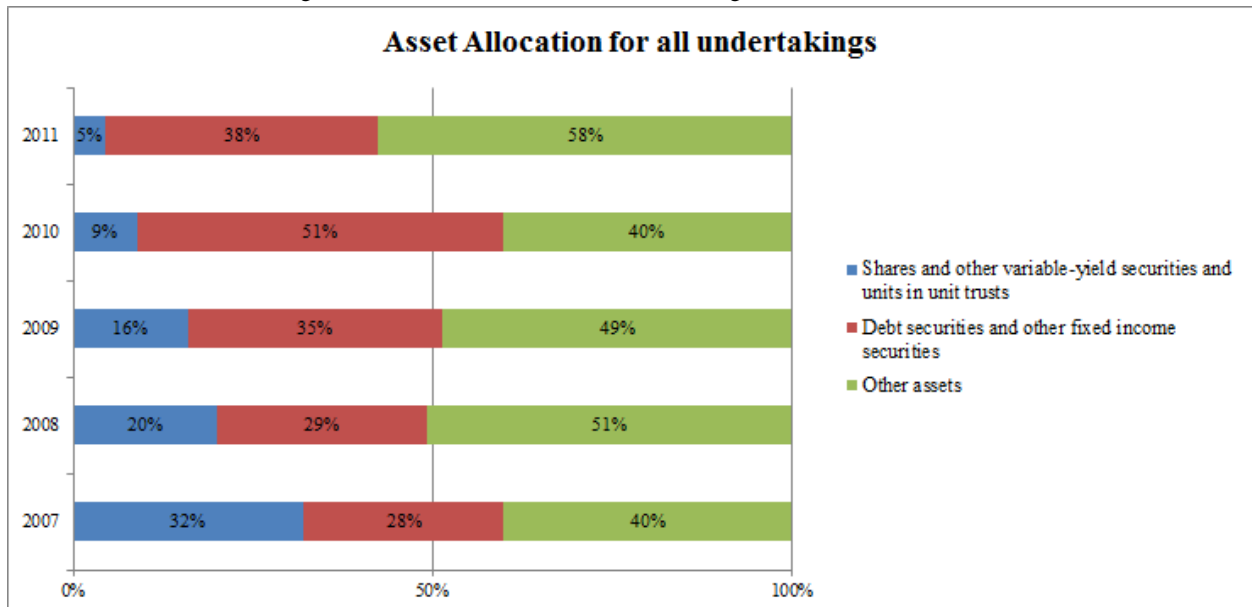
We note an increase in the gross written premiums of 15% for general business between 2010 and 2011. However, the increase is lower when compared to the increase of 143% observed between 2009 and 2010.

3.2.Asset Allocation

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

The asset allocation for all undertakings from 2007 to 2011 is provided in the graph below:

Figure 3.2.1 Asset allocation for all undertakings from 2007 to 2011

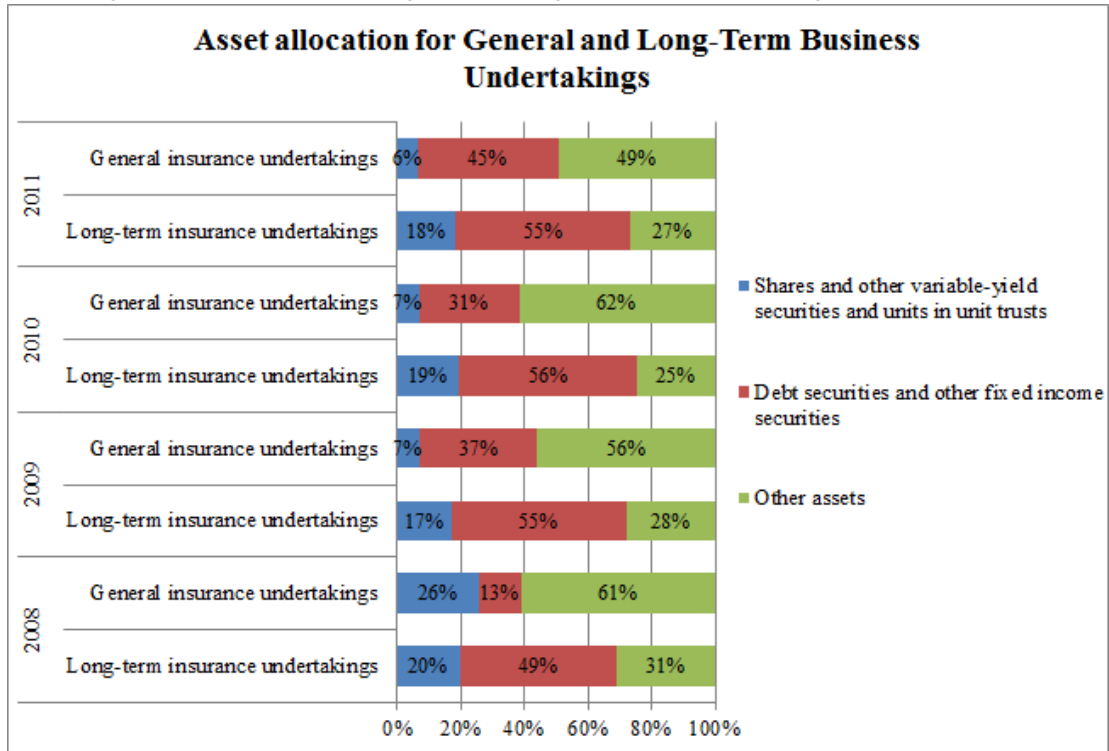


Note: The other assets category consists mainly of investments in participating interests, deposits with credit institutions and other financial investments and deposits with ceding enterprises.

We observed a large increase in the *other assets* category and a decrease in the *shares and debt securities* categories. The main change in the *other assets* category between 2010 and 2011 was seen for pure reinsurers.

For the general business undertakings, the asset allocations observed between 2010 and 2011 are broadly unchanged. However, for the long-term business undertakings, we see an increase in *other assets* and a decrease in *shares and debt securities* categories as shown in the graph below.

Figure 3.2.2 Asset allocation for general and long-term business undertakings from 2007 to 2011

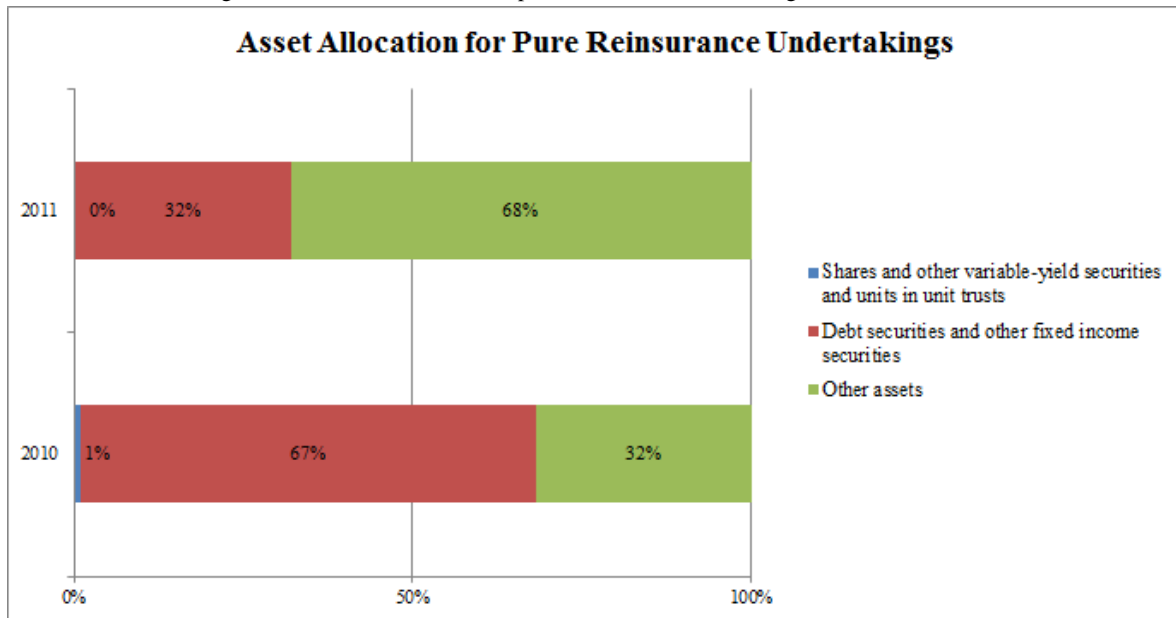


Notes:

- (1) The asset allocation presented here excludes those of the pure reinsurance undertakings.
- (2) The asset allocation split by long-term and general insurance undertakings for 2007 was not readily available

For pure reinsurance undertakings, the asset allocations observed between 2010 and 2011 has changed significantly. As previously explained there has been an increase in the proportion of *deposits with ceding enterprises* for pure reinsurers which has resulted in the increase in the proportion of *other assets* in 2011 when compared to 2010.

Figure 3.2.3 Asset allocation for pure reinsurance undertakings for 2010 and 2011



Notes:

- (1) The asset allocation data for pure reinsurance undertakings is not readily available for the years from 2007 to 2009
- (2) For the pure reinsurance undertakings, there is an insignificant proportion of assets in shares and other variable-yield securities and units in unit trusts

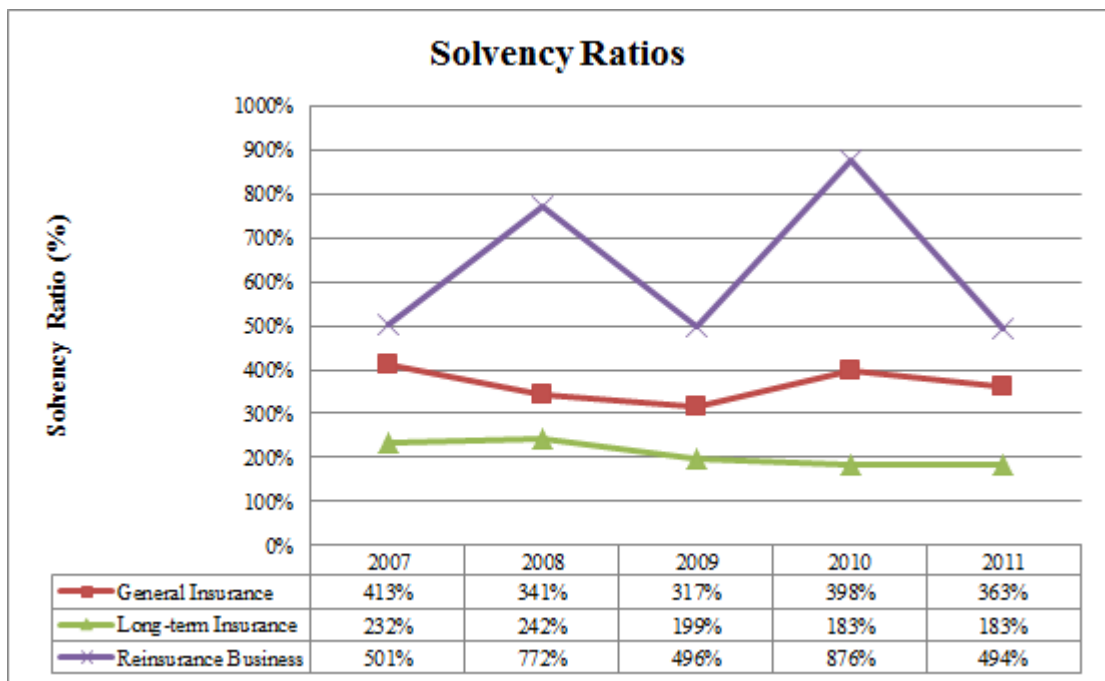
3.3.Capital adequacy of Insurance Undertakings

The total solvency ratio for all undertakings was 288% in 2011 as opposed to 470% in 2010. The following graph shows the solvency ratios for general insurance, long-term insurance, and reinsurance business from 2007 to 2011.

The following changes in solvency ratios have been observed between 2010 and 2011:

- Substantial decrease of 382% for pure reinsurance undertakings;
- Decrease of 35% for general insurance undertakings;
- Unchanged for long-term insurance undertakings.

Figure 3.3.1 Solvency ratios for all undertakings from 2007 to 2011



The substantial decrease in the solvency ratio observed for pure reinsurance undertakings is due to the significant increase in the health business reinsured in 2011.

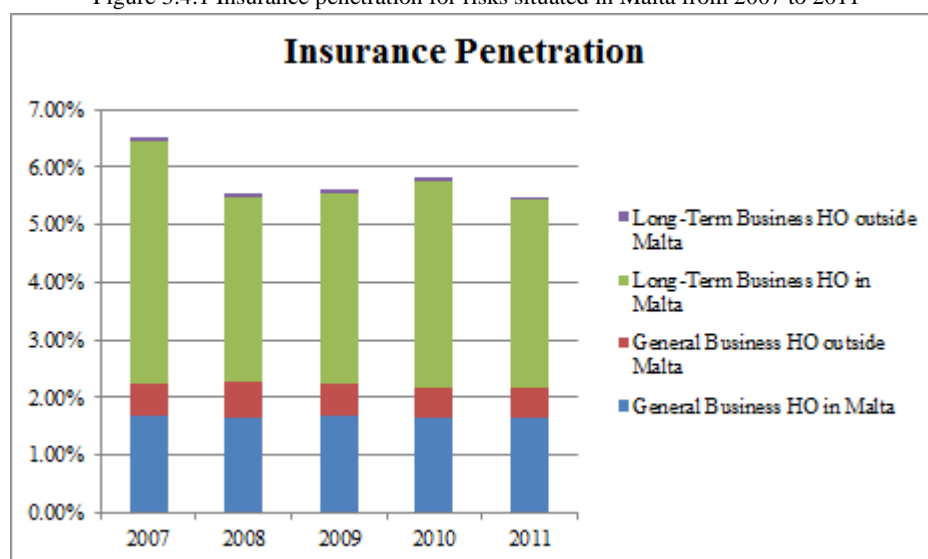
3.4. Insurance Penetration

The gross domestic product in real terms for 2011 was €6.4bn (€6.2bn in 2010), an increase of 2.4% from 2010.

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, has decreased from 5.8% in 2010 to almost 5.4% in 2011. This represents a decrease of 0.4% over the period 2010 to 2011.

For the general business, the penetration rate remained almost unchanged at 2.2% in 2010 and 2011. For the long-term business, the rate decreased by 0.4%, from 3.7% in 2010 to 3.3% in 2011.

Figure 3.4.1 Insurance penetration for risks situated in Malta from 2007 to 2011



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.*

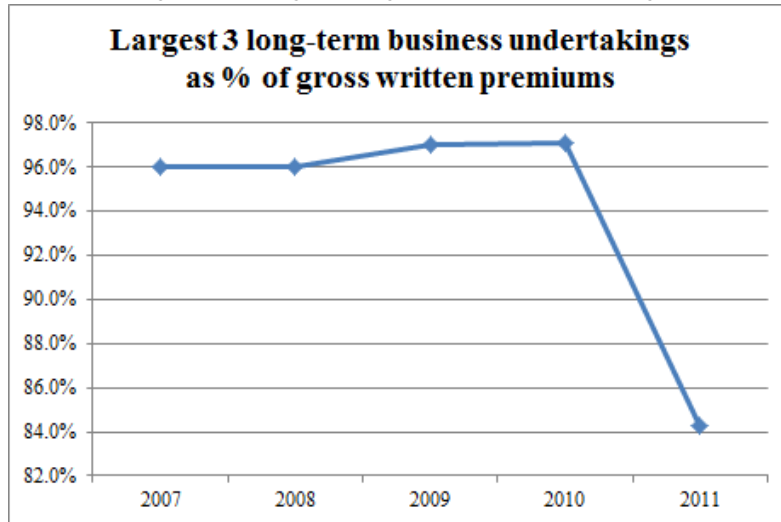
The decrease in the insurance penetration rate observed in 2011 is accredited to the gross written premiums by long-term business undertakings with HO in Malta.

3.5. Concentration of the Insurance Market

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

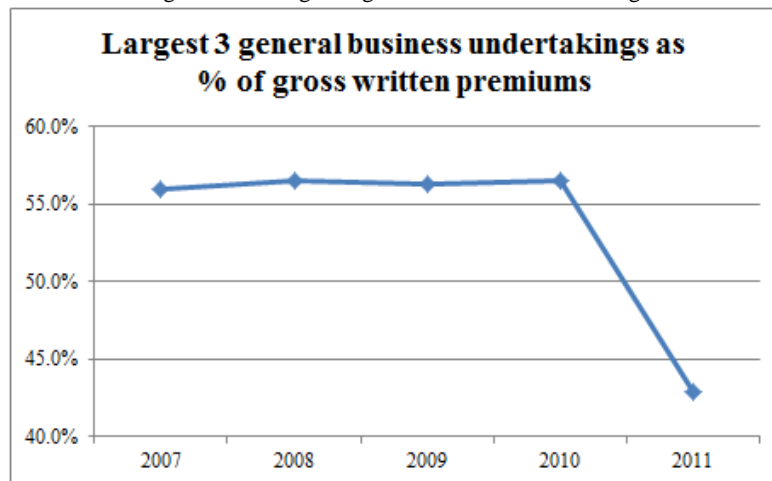
The three largest long-term business undertakings write 84% (97.1% in 2010) of the total long-term insurance gross written premiums by undertakings with HO in Malta and undertakings with HO outside Malta that service long-term business in the domestic sector through agencies.

Figure 3.5.1 Largest 3 long-term business undertakings



The largest three general business undertakings write 43% (56.5% in 2010) 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



4. General Business

4.1. Gross Written Premium

The gross written premiums in respect of the general business written in Malta and outside Malta have increased by 15% from €1,026m in 2010 to €1,185m in 2011. The increase between 2010 and 2011 is due to an increase in the volume of business written in the *accident and health, motor and other* business classes. Over 2011, there has been a reduction in gross written premiums for the *aviation, marine and transport* and *general liability* business classes.

The *fire and other property damage* business class remains the largest part of the general business written.

4.1.1. Comparison of Gross Written Premiums by Business Class

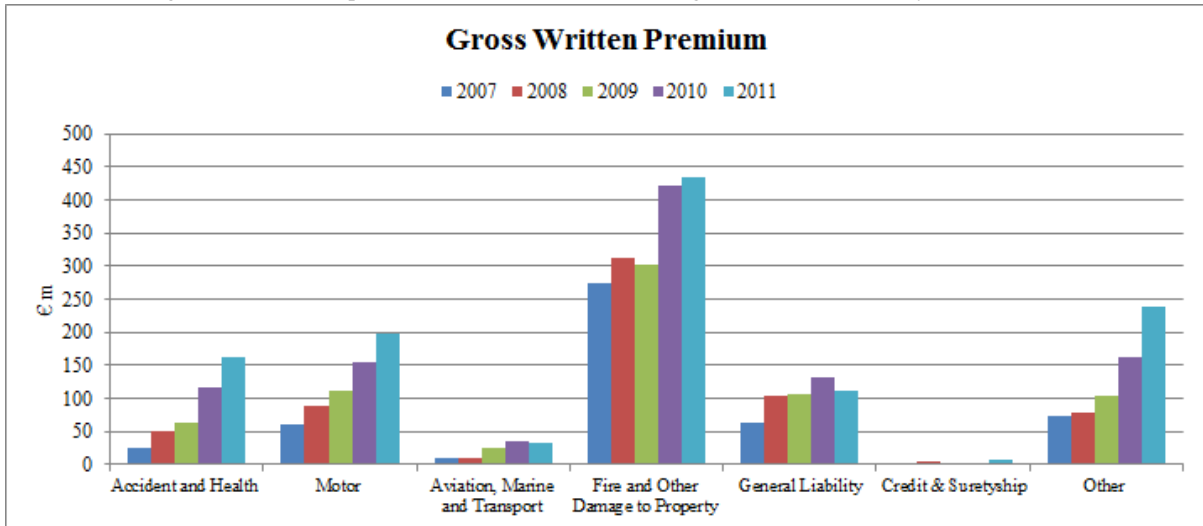
The table below provides a comparison of the gross written premiums between 2007 and 2011 by business:

Table 4.1.1.1 Gross premiums written for all undertakings from 2007 to 2011 by business class

€m	2007	2008	2009	2010	2011	% Change 2010 /2011
Accident and Health	25	50	64	117	163	+39%
Motor	62	88	111	155	198	+28%
Aviation, Marine and Transport	9	10	26	35	34	-4%
Fire and Other Damage to Property	274	313	301	422	434	3%
General Liability	64	104	107	132	112	+16%
Credit & Suretyship	0	5	3	2	7	275%
Other*	74	79	104	162	238	47%
Total	509	650	716	1,026	1,185	15%

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

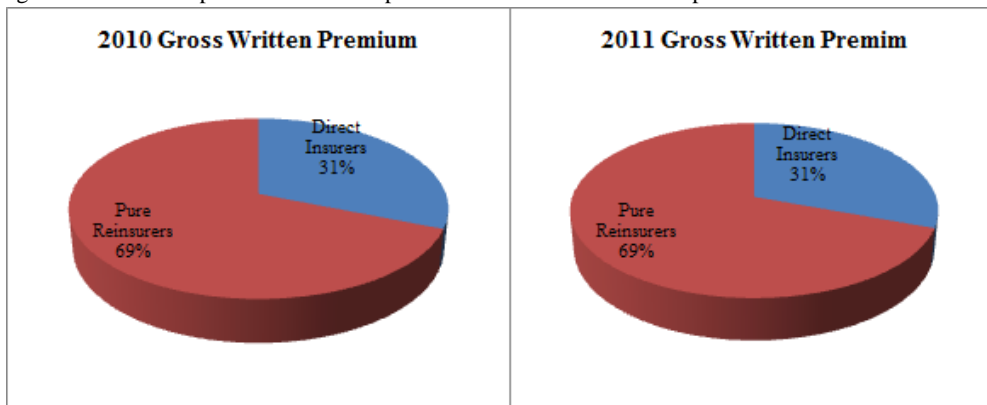
Figure 4.1.1.2 Gross premiums written for all undertakings from 2007 to 2011 by business class



4.1.2. Comparison of Gross Written Premium between Direct Insurers and Pure Reinsurers in 2010 and 2011

The proportion of gross written premiums by direct insurers and pure reinsurers remains unchanged between 2010 and 2011, at 31% and 69% respectively.

Figure 4.1.2.1 Gross premiums written split between direct insurers and pure reinsurers in 2010 and 2011

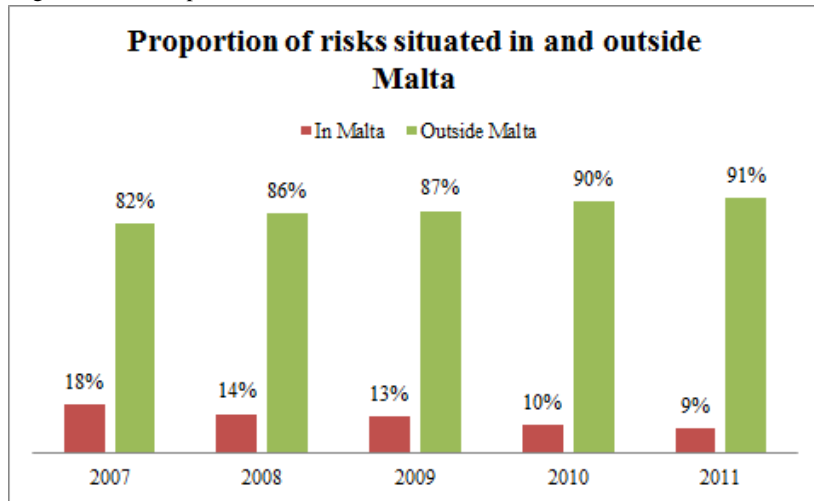


4.1.3. Comparison of Gross Written Premiums between risks situated in Malta and outside Malta

The proportion of general business written in Malta has been decreasing whilst the proportion of general business written outside Malta has been increasing between 2007 and 2011.

However, the ratio of general business written in and outside Malta has remained broadly consistent between 2010 and 2011.

Figure 4.1.3.1 Proportion of risks written in and outside of Malta from 2007 to 2011



4.2.Source of Business

The general business sector for risks situated in Malta and outside Malta continues to be mainly directly generated. The directly generated business accounted for 38.8% (37.5% in 2010) of the business for risks situated in Malta. For risks situated outside Malta, business generated directly accounted for 65.5% of the business (69.7% in 2010).

Figure 4.2.1 Source of business by distribution channel

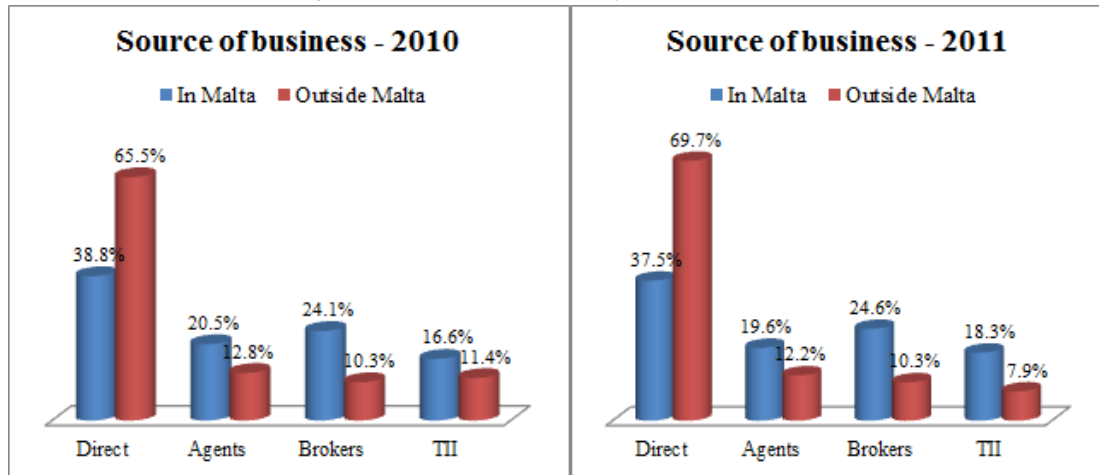


Figure 4.2.2 Source of business by risks situated in and outside Malta

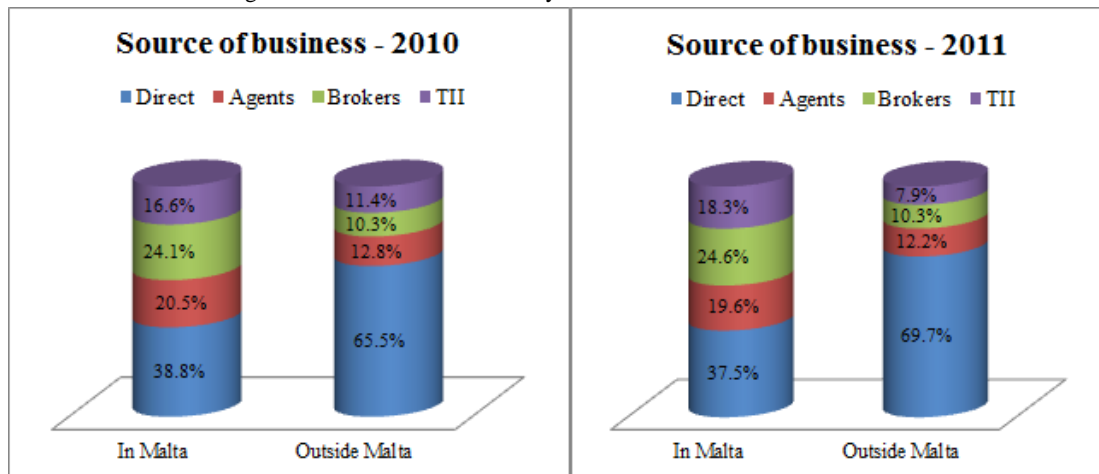


Figure 4.2.3 Risks situated in and outside Malta in 2010 and 2011 by business class

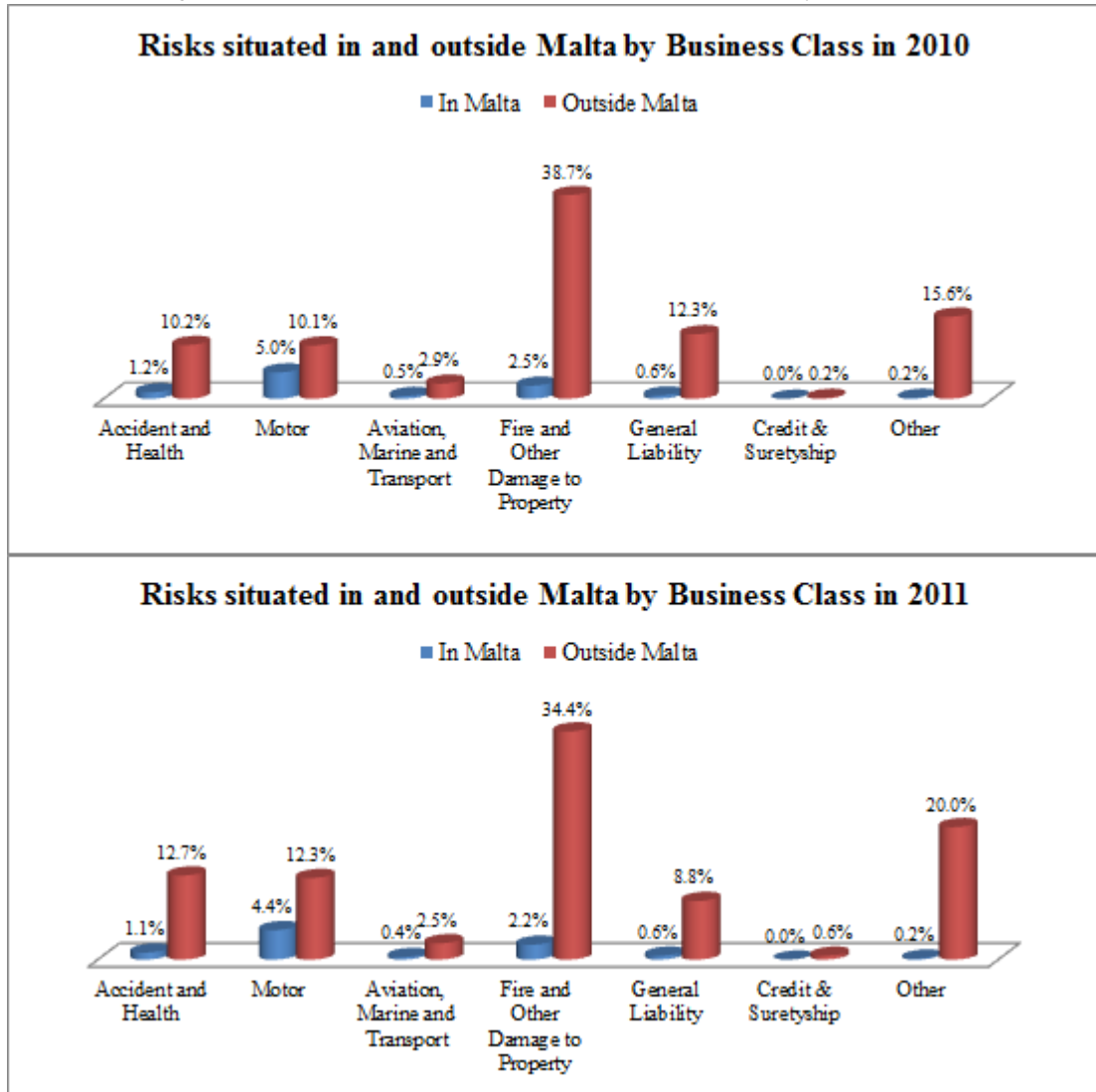
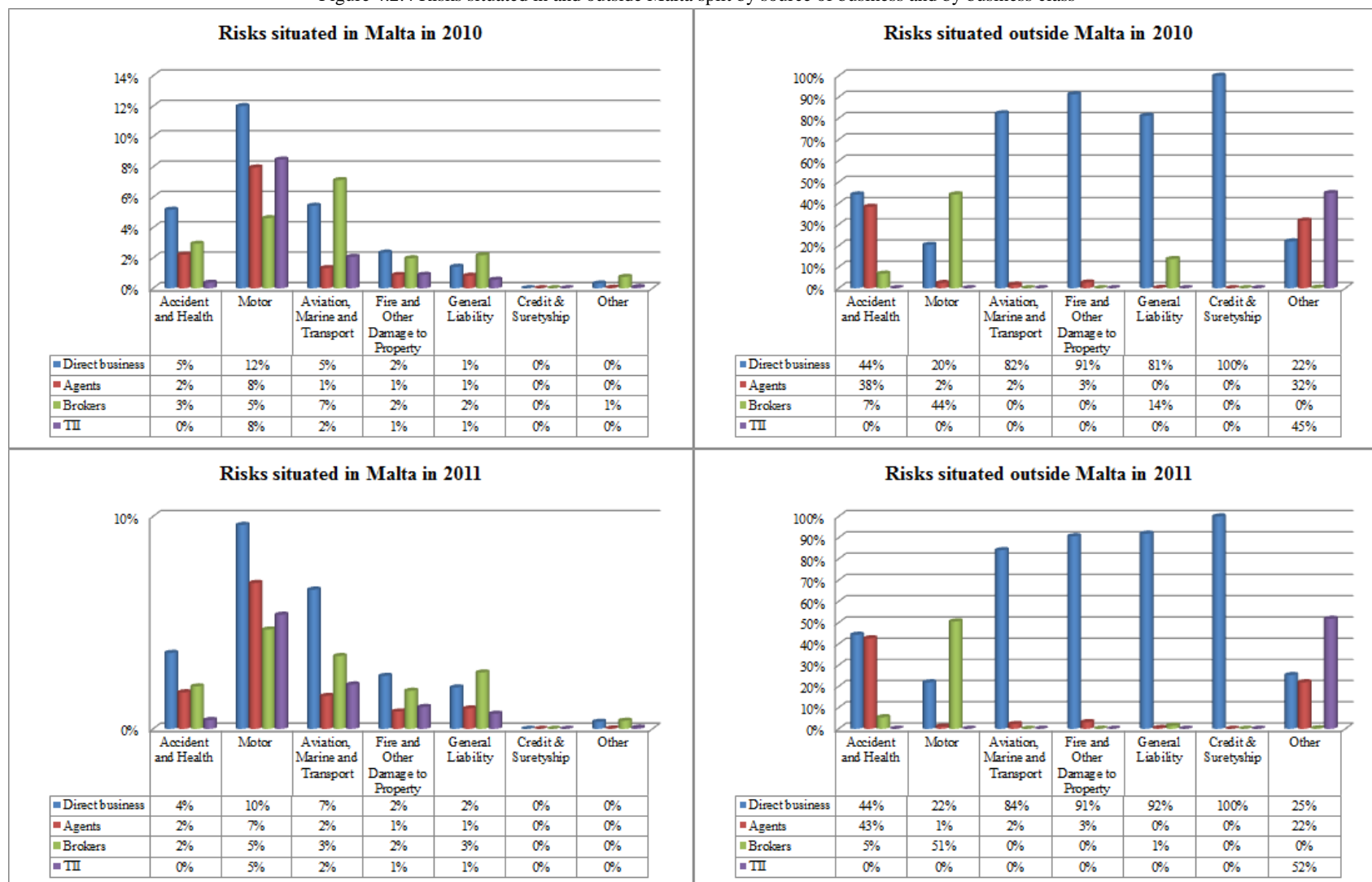


Figure 4.2.4 Risks situated in and outside Malta split by source of business and by business class

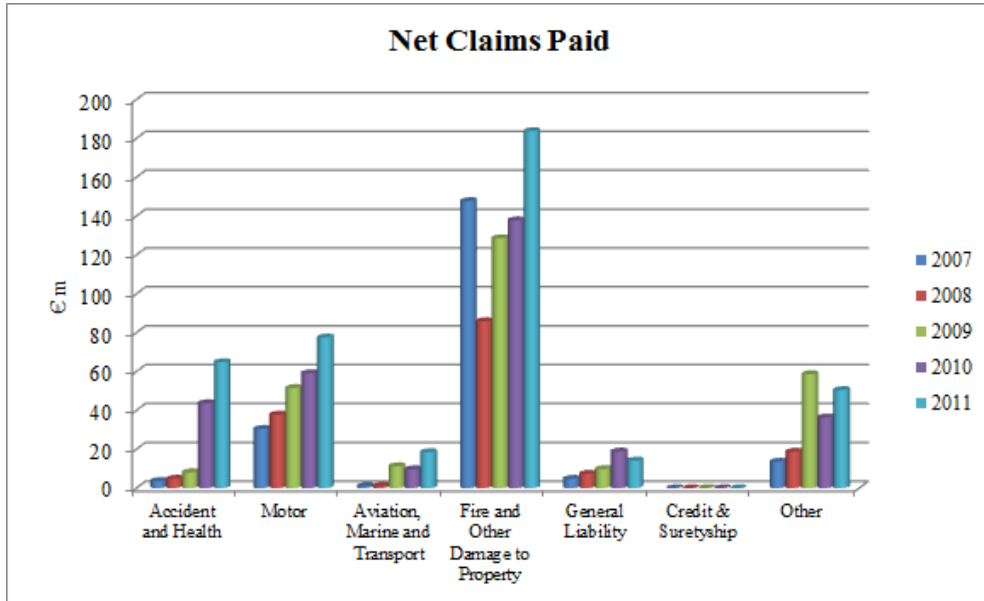


4.3. Claims

4.3.1. Net Claims Paid

The net claims paid has increased by 34% in 2011 (14% in 2010) from €306m in 2010 to €409m in 2011. The increase is the greatest in percentage terms for the *aviation, marine and transport* business class. However, in terms of Euro amounts, the greatest increase is seen in the *fire and other damage to property* business class of €46m.

Figure 4.3.1.1 Net claims paid for all undertakings from 2007 to 2011

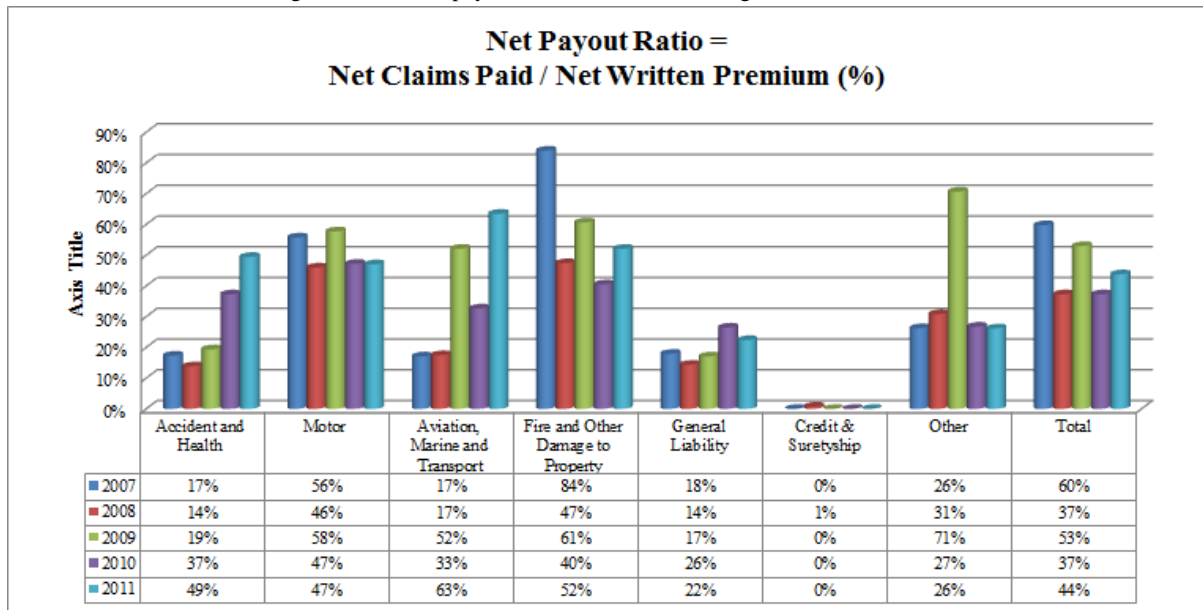


4.3.2. Net Payout Ratio

The net payout ratio has increased from 37% in 2010 to 44% in 2011. 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 rather volatile.

In 2011, the largest increase of 30% in the net payout ratio is observed in *the aviation, marine and transport* business class, whilst the largest decrease of 4% in the ratio is observed in the *general liability* business class.

Figure 4.3.2.1 Net payout ratio for all undertakings from 2007 to 2011

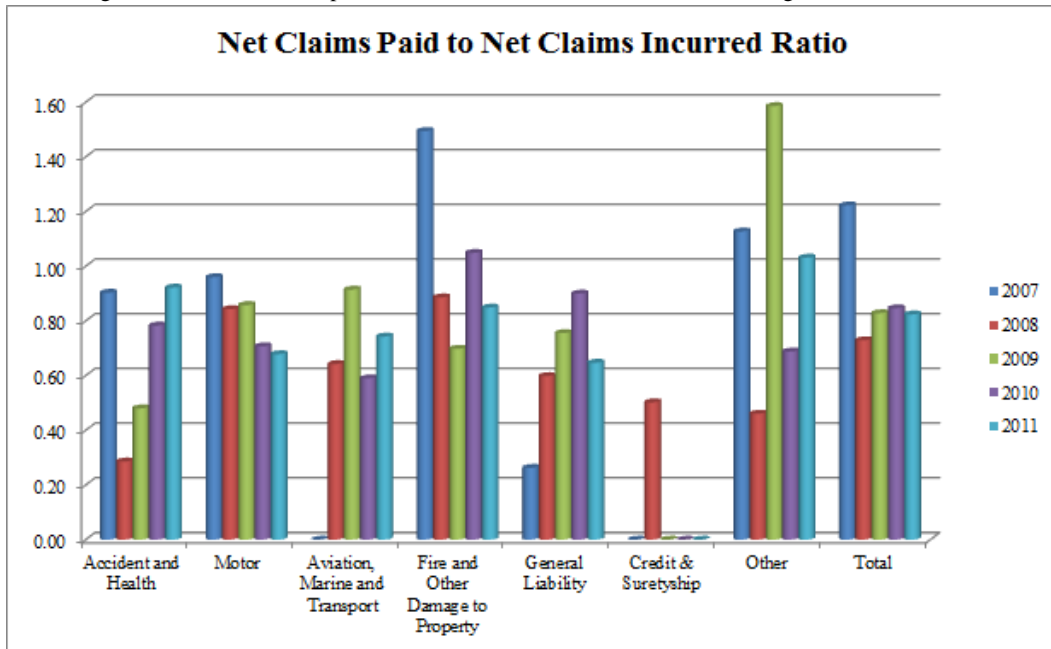


4.3.3. Ratio of Net Claims Paid over Net Claims Incurred

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 can see that this ratio is also volatile.

Figure 4.3.3.1 Net claims paid over net claims incurred for all undertakings from 2007 to 2011

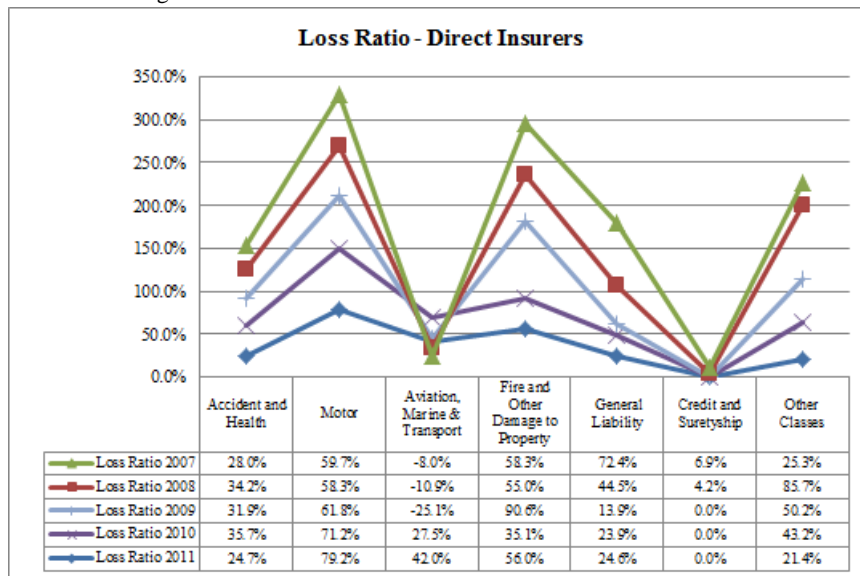


4.4.Key Financial indicators for General Business

4.4.1. Loss ratio

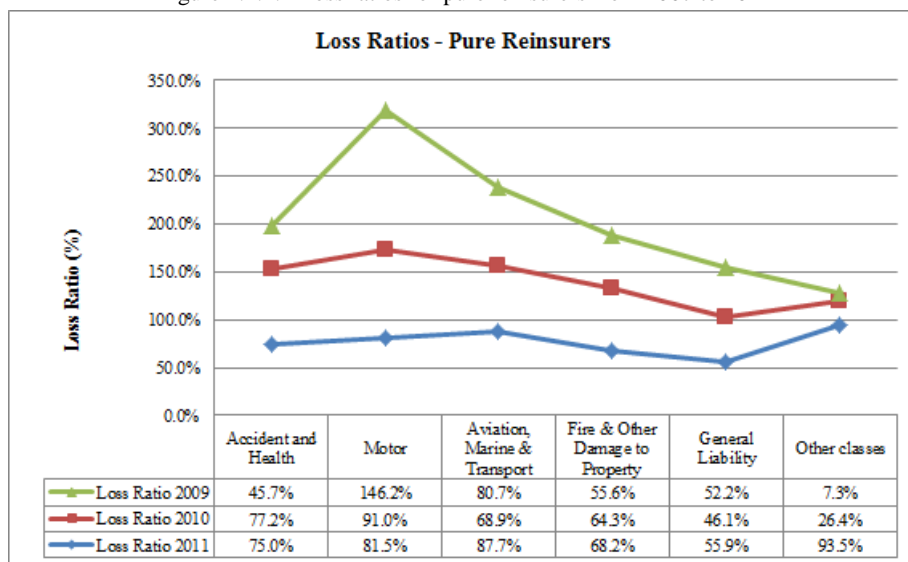
The loss ratios presented here are the net loss ratios. This is calculated as the net claims incurred over net earned premiums. The loss ratios for direct insurers and pure reinsurers are presented in the graphs below (note that these loss ratios are not the ultimate loss ratios):

Figure 4.4.1.1 Loss ratios for direct insurers from 2007 to 2011



The loss ratios for the direct insurers have worsened between 2010 and 2011, in all business classes except for the *accident and health* and *other* business classes where we see an improvement of about 11% and 21.8% respectively.

Figure 4.4.1.2 Loss ratios for pure reinsurers from 2007 to 2011



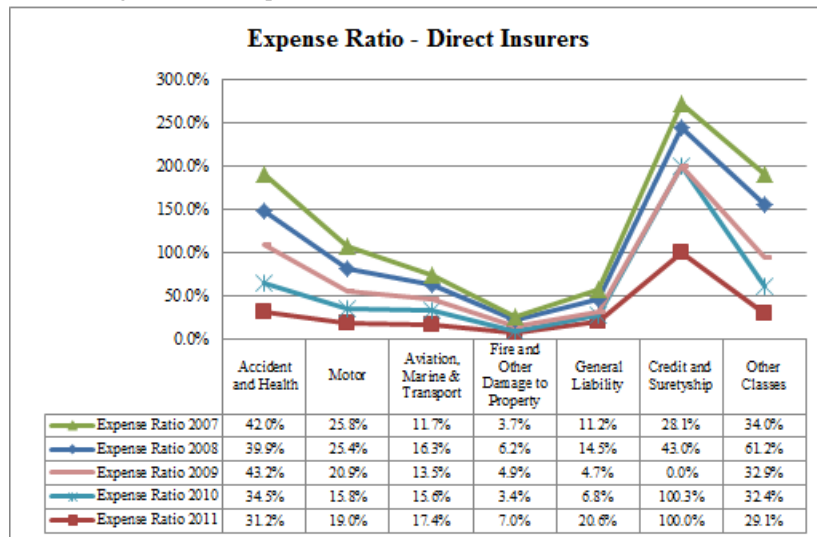
Note: For the direct reinsurers, data is not readily available for 2007 and 2008

The loss ratios for the pure reinsurers have also worsened between 2010 and 2011, in all business classes except for the *accident and health* and *motor* business classes which have improved by 2.2% and 9.5% respectively.

4.4.2. Expense ratio

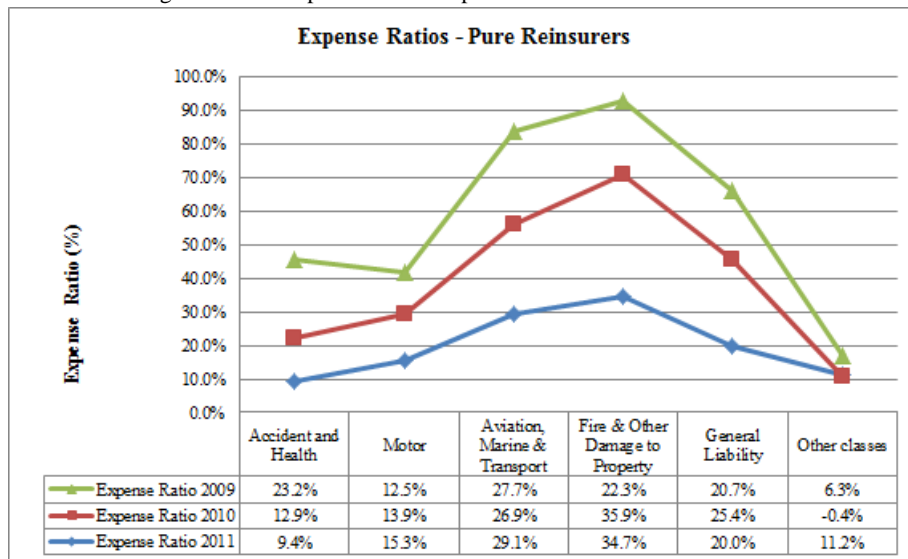
The expense ratio is calculated as the net operating expenses over the net earned premiums. The expense ratios for direct insurers and pure reinsurers are presented in the graphs below:

Figure 4.4.2.1 Expense ratios for direct insurers from 2007 to 2011



The expense ratios for direct insurers have increased between 2010 and 2011 for all business classes except for the *accident and health*, and the *other* business classes, which have decreased by 3.3% each. The *credit and suretyship* business class has remained broadly unchanged.

Figure 4.4.2.2 Expense ratios for pure reinsurers from 2007 to 2011



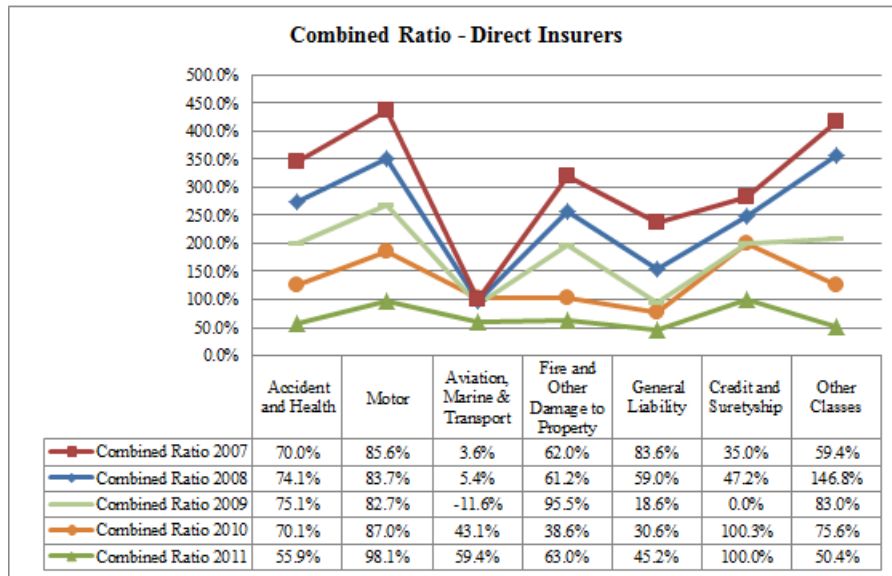
Note: For the direct reinsurers, data is not readily available for 2007 and 2008

The expense ratios for pure reinsurers have also increased between 2010 and 2011 for all classes of insurance except for the *accident and health*, *fire and other property damage* and the *general liability* business classes, which have decreased by 3.5%, 1.2%, and 5.4% respectively.

4.4.3. Combined ratio

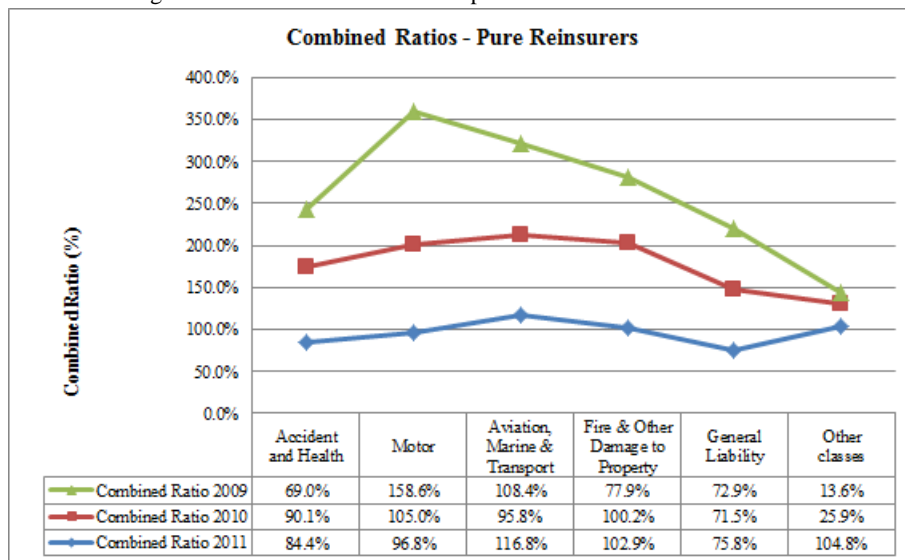
The combined ratio is calculated as the sum of net claims incurred and the net operating expenses over the net earned premiums. The combined ratios for direct insurers and pure reinsurers are presented in the graphs below:

Figure 4.4.3.1 Combined ratios for direct insurers from 2007 to 2011



The combined ratios of the direct insurers have increased between 2010 and 2011 for all business classes except for the *accident and health* and the *other* business classes, which have decreased by 14.2% and 25.2% respectively. The *credit and suretyship* business class has remained broadly unchanged.

Figure 4.4.3.2 Combined ratios for pure reinsurers from 2007 to 2011



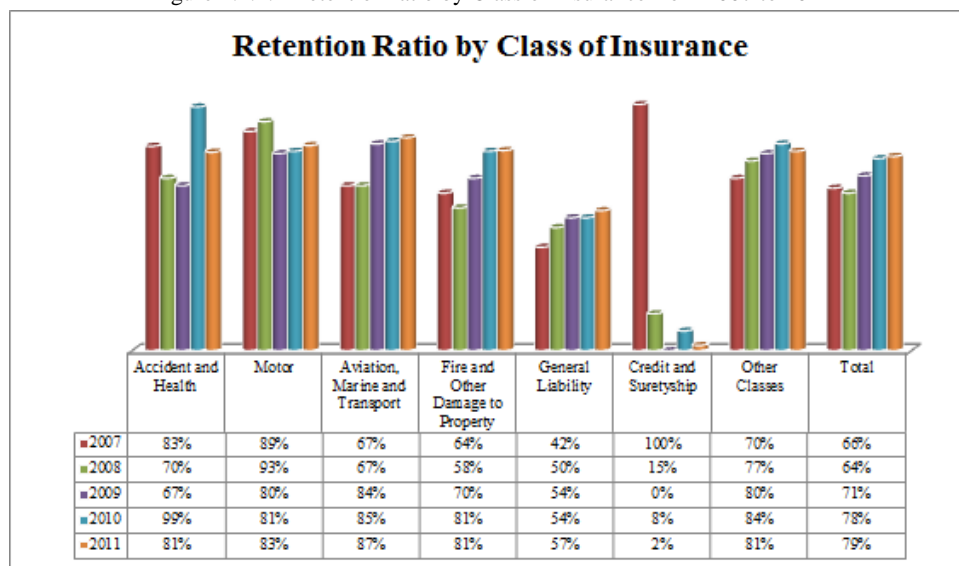
Note: For the direct reinsurers, data is not readily available for 2007 and 2008

The combined ratios of the pure reinsurers have also increased between 2010 and 2011 for all business classes except for the *accident and health* and the *motor* business classes, which have decreased by 5.7% and 8.2% 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 premiums written over the gross written premiums.

Figure 4.4.4.1 Retention ratio by Class of insurance from 2007 to 2011



The total amount retained has increased by 1% for the general business undertakings between 2010 and 2011.

5. Long-Term Business Overview

5.1. Gross Written Premium

The gross written premiums in respect of the long-term business have increased by 111% in 2011 (48% in 2010) from €485m in 2010 to €1,022m in 2011. This increase is mainly due to the increase in business written by pure reinsurers.

The bulk of the long-term business written under the life and annuity business class, makes up 92% of the total gross written premiums in 2011, compared to 87% in 2010.

5.1.1. Comparison of Gross Written Premium by class of insurance

The table below provides a comparison of the gross written premiums between 2010 and 2011 by class of business:

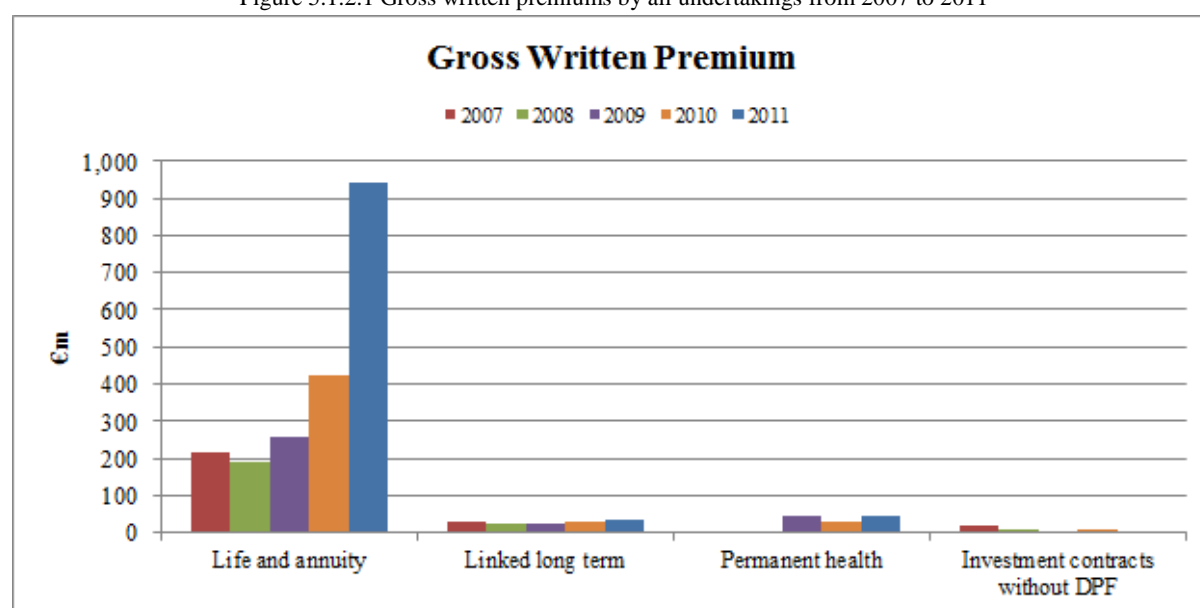
Table 5.1.1.1 Gross written premiums by all undertakings from 2007 to 2011

€ m	2007	2008	2009	2010	2011	% Change 2010/2011
Life and annuity	215	190	259	422	941	123%
Linked long term	28	24	23	27	33	22%
Permanent health	0	1	43	28	45	61%
Investment contracts <i>without</i> DPF	21	7	3	7	4	-43%
Total	265	221	327	485	1,022	111%

5.1.2. Comparison of Gross Written Premiums from 2007 to 2011

The graph below provides a comparison of the gross written premiums from 2007 to 2011:

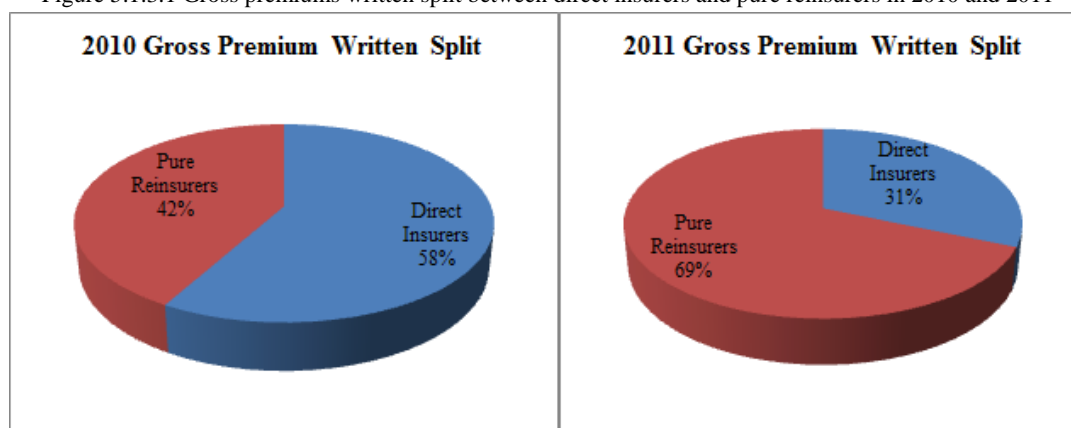
Figure 5.1.2.1 Gross written premiums by all undertakings from 2007 to 2011



5.1.3. Comparison of Gross Written Premium between Direct Insurers and Pure Reinsurers in 2010 and 2011

The proportion of gross written premiums by direct insurers and pure reinsurers has changed between 2010 and 2011. The proportion of the long-term business written by pure reinsurers has increased by 27% in 2011 and the proportion written by direct insurers has decreased by the same amount.

Figure 5.1.3.1 Gross premiums written split between direct insurers and pure reinsurers in 2010 and 2011

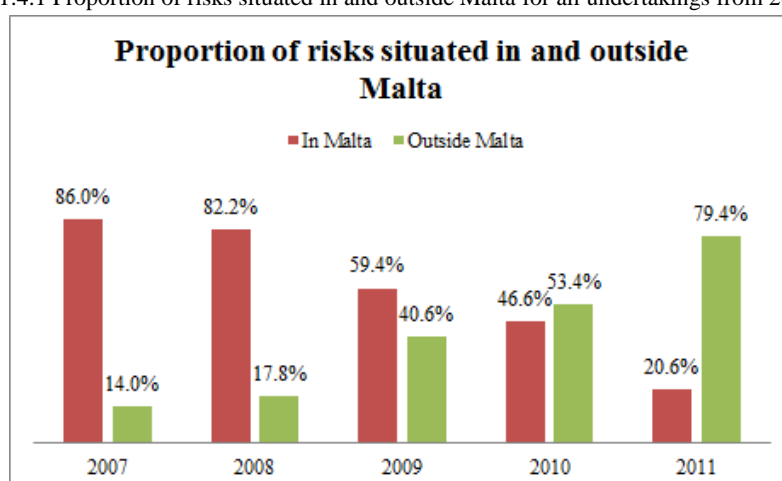


5.1.4. Comparison of Gross Written Premium between risks situated in Malta and outside Malta

In respect of risks situated in Malta in 2010 and 2011, there has been a 7% decrease in GWP for direct insurance business and a 10% increase in GWP for reinsurance business.

In respect of risks situated outside Malta in 2010 and 2011, there has been a 107% increase in GWP for direct insurance business and a 240% increase in GWP for reinsurance business. This increase was mainly observed in the life and annuity business class, which forms the bulk of the long-term business written.

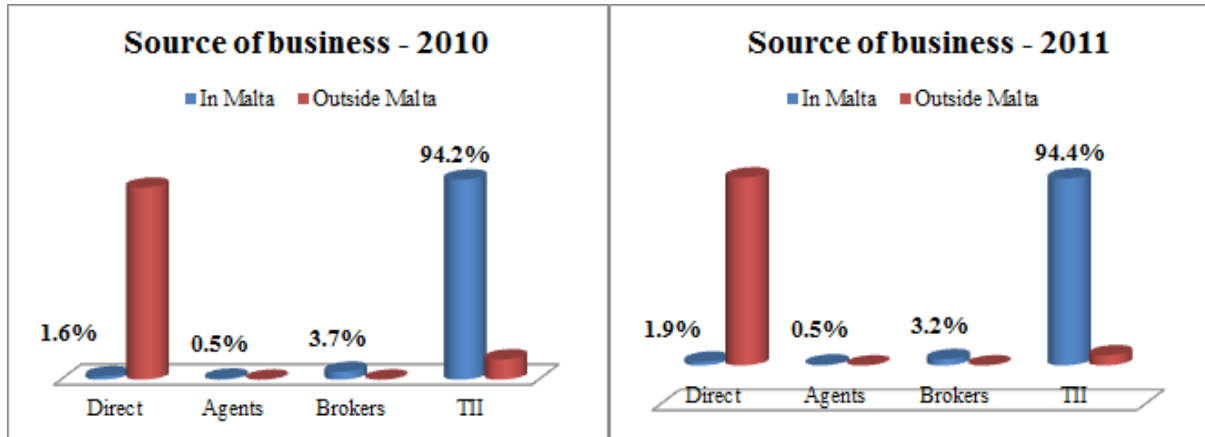
Figure 5.1.4.1 Proportion of risks situated in and outside Malta for all undertakings from 2007 to 2011



5.2.Source of Business

The long-term business sector for risks situated in Malta continues to be mainly generated by tied insurance intermediaries (TII) in 2011. The TII business accounts for 94.4% (94.2% in 2010) of the business with only 1.9% (1.6% in 2010) of the business generated directly.

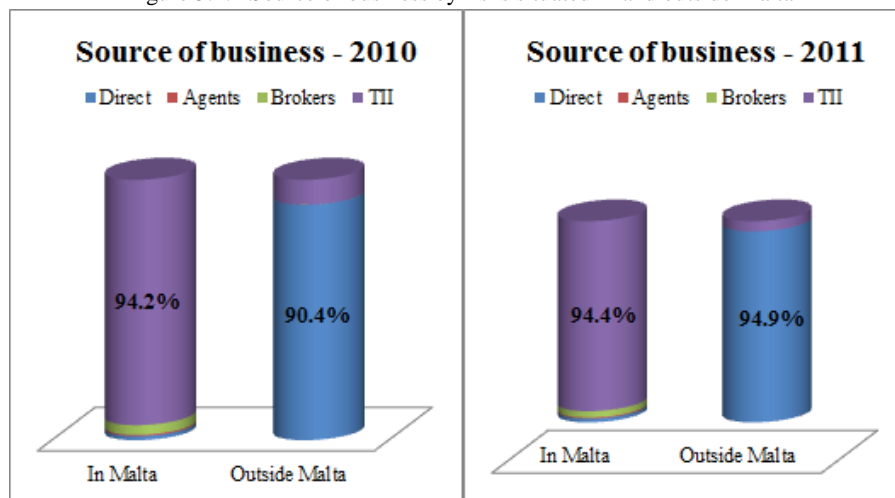
Figure 5.2.1 Source of business by distribution channel



Note: The percentages shown in the chart above reflect the source of business for risks situated in Malta

On the other hand, for risks situated outside Malta, 94.9% (90.4% in 2010) of the business is generated directly and the remaining 5.1% (9.6% in 2010) is generated by TII.

Figure 5.2.2 Source of business by risks situated in and outside Malta



5.3. Technical Provisions

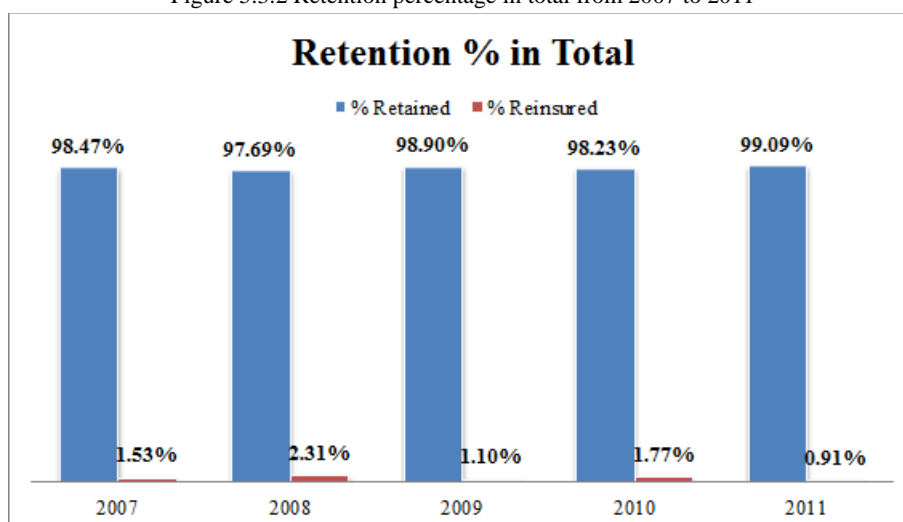
The table below provides the breakdown of the technical provisions from 2007 to 2011.

Table 5.3.1 Technical provisions from 2007 to 2011

Year	Gross (€m)	Reinsurance Ceded (€m)	Net of Reinsurance (€m)
2007	1,116	17	1,099
2008	1,153	27	1,127
2009	1,508	17	1,491
2010	1,733	31	1,703
2011	5,265	48	5,218

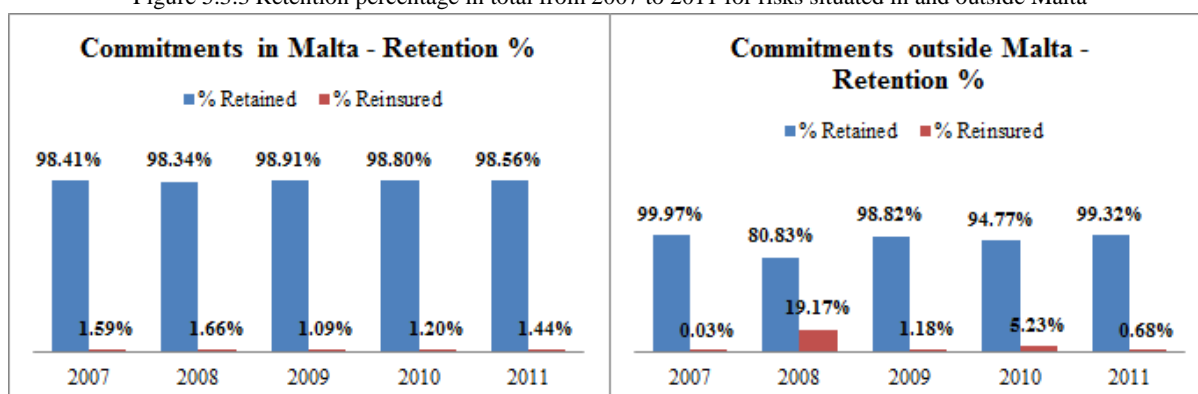
The chart below provides a split of technical provisions by the proportion retained and the proportion reinsured by undertakings:

Figure 5.3.2 Retention percentage in total from 2007 to 2011



This chart shows that the long-term business undertakings retained a majority of the risks themselves. The breakdown of the retention percentages for risks situated in Malta and risks situated outside Malta from 2007 to 2011 are provided below:

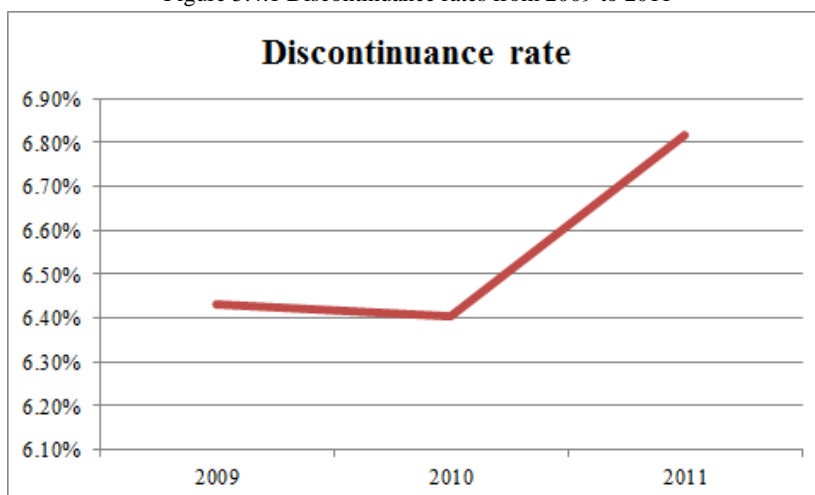
Figure 5.3.3 Retention percentage in total from 2007 to 2011 for risks situated in and outside Malta



5.4. Discontinuance Rates

The discontinuance rate experienced by long-term business undertakings writing business in Malta has increased from 6.42% in 2010 to 6.82% in 2011. The trend of discontinuance rates between 2009 and 2011 is shown below:

Figure 5.4.1 Discontinuance rates from 2009 to 2011



Note: Data is not readily available for 2007 and 2008

The increase in discontinuance rates is due to a large number of policyholders surrendering the policies after the initial surrender penalty period.