

# Factfile 2001

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# President's Introduction

## Ian Stuart



I am delighted to introduce the tenth edition of the Irish Insurance Federation's *Factfile*, covering the Irish and international business of IIF member companies in 2001 and both general economic and insurance trends over the 5-year period 1997-2001.

Key insurance statistics for 2001 include:

- ◆ Conflicting trends in the life and non-life markets: life & pensions business was down by almost 6% to nearly €7.2 billion, while non-life premiums increased by almost 20% to over €3.2 billion;
- ◆ Overall, premium income increased by less than 1%, and now accounts for 9% of Irish GDP (down from 9.9% in 2000);
- ◆ With the fall in life and pensions premiums, the annualised 5-year growth in that market slowed to 21.6% p.a.; conversely, the significant increase in non-life gross premium in 2001 raised the long-term non-life growth rate to 15% p.a., in line with economic growth;
- ◆ Life assurance benefits and claims payments increased 27.2% in 2001, to €4.1 billion; non-life claims costs (gross incurred claims) increased to €2.6 billion (up 8.8%);
- ◆ Growth in investments (life policyholder funds & non-life technical reserves) slowed to 2.7% in 2001. Nevertheless, insurers' investments at the end of the year were worth some €47.4 billion, with over 50% invested in Ireland.

There was significant premium growth in the non-life market in 2001, particularly in liability and property insurance. Growth was due to a combination of increased economic activity and consequent raised demand for insurance cover, along with significant rate rises on foot of:

- ◆ heavy underwriting losses in previous years;
- ◆ continuing claims inflation on both personal injury and damage claims; and
- ◆ further pressure on investment returns in volatile world markets, factors which remain relevant this year.

The rating action of 2000 and 2001 has had the desired effect of reducing the unacceptable level of underwriting losses on motor insurance. Consequently, rate increases in the future may be of a lower order than in the recent past. However, in the light of the failure of the liability market to produce returns on capital acceptable to shareholders over a number of years, there have also been significant increases in the cost of employer's and public liability insurance, which will continue until profitability is restored.

In last year's *Factfile*, my predecessor warned that the situation in the non-life market was so serious that there was a real danger of the investors who provide underwriting capital to the market withdrawing unless returns improved significantly. In fact, a number of insurers did withdraw from the market during the course of 2001, particularly in the commercial/liability classes. This has diminished customer choice significantly. It is to be hoped, however, that further attention to risk management - where insurers, customers and brokers all have important parts to play - and the rating action taken by underwriters will stabilise the situation and attract fresh capital into the market.

After the economic boom and attendant premium growth in previous years, the life and pensions sector experienced its own downturn in 2001. Total premium income decreased by nearly 6%, largely driven by a significant drop in pension scheme business. However, new business sales increased by 7.4% (A.P.E. basis).

The introduction of Special Savings Investment Accounts provided a boost to the regular savings sector, and IIF life members were successful in capturing an estimated 23% of Special Savings Investment Accounts opened.

Some insurance products are seen by policyholders as "grudge purchases" especially when compulsory (e.g., motor insurance) or quasi-compulsory (e.g., buildings and mortgage protection insurance as prerequisites for mortgage loans). One of the great challenges facing our industry is to improve the negative perception of our products and to persuade our customers to see insurance in a more positive - and more accurate - light. The truth is that the protection we provide to both private and commercial policyholders is indispensable. Without it, the modern world could not function. Some policyholders may associate insurance with negative events - accidents, weather damage, illness or death, but the peace of mind and financial security provided by life, pensions and casualty insurance to both individuals and corporations is highly valuable. As well as protecting people and facilitating commerce, insurance is an important economic sector in its own right, providing employment to well over 15,000 people in Ireland and channelling huge investment funds into the Irish economy (in the region of €25 billion at the end of 2001).

I am confident that this year's edition of the *Factfile* will help to underscore the value and importance of our industry to the Irish economy and will provide readers with the range and detail of statistical information which they have come to expect.

**IAN STUART**  
President

introduction



*factfile one***General Economic Indicators 1997-2001****1**1  
factfile**General Economic Indicators 1997-2001**

<b>IRELAND</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>Annualised % Change 1997-2001</b>
<b>GDP (€ billion)</b>	67.02	77.11	89.03	103.47	115.44	14.6%
<b>GNP (€ billion)</b>	58.98	67.73	75.81	87.13	96.75	13.2%
<b>Consumer Price Index (change)</b>	1.5%	2.4%	1.6%	5.6%	4.9%	3.2%
<b>Unemployment Rate</b>	10.3%	7.8%	5.7%	4.3%	3.7%	-
<b>Population ('000s)</b>	e3661	e3705	e3745	e3787	e3839	1.2%
<b>Insurance Premiums (€ billion)</b>	5.091	6.264	8.241	10.295	10.396	19.5%

Source: CSO; IIF; e = estimated.

<sup>1</sup>Annualised Growth Rate: Economic activity is normally plotted on a curve that shows peaks and troughs. The formula for the Annualised Growth Rate takes the start and finish point of said curve and draws a horizontal line between them. This is then, in effect, an average rate of growth (or decline) over the period identified at the two end points.

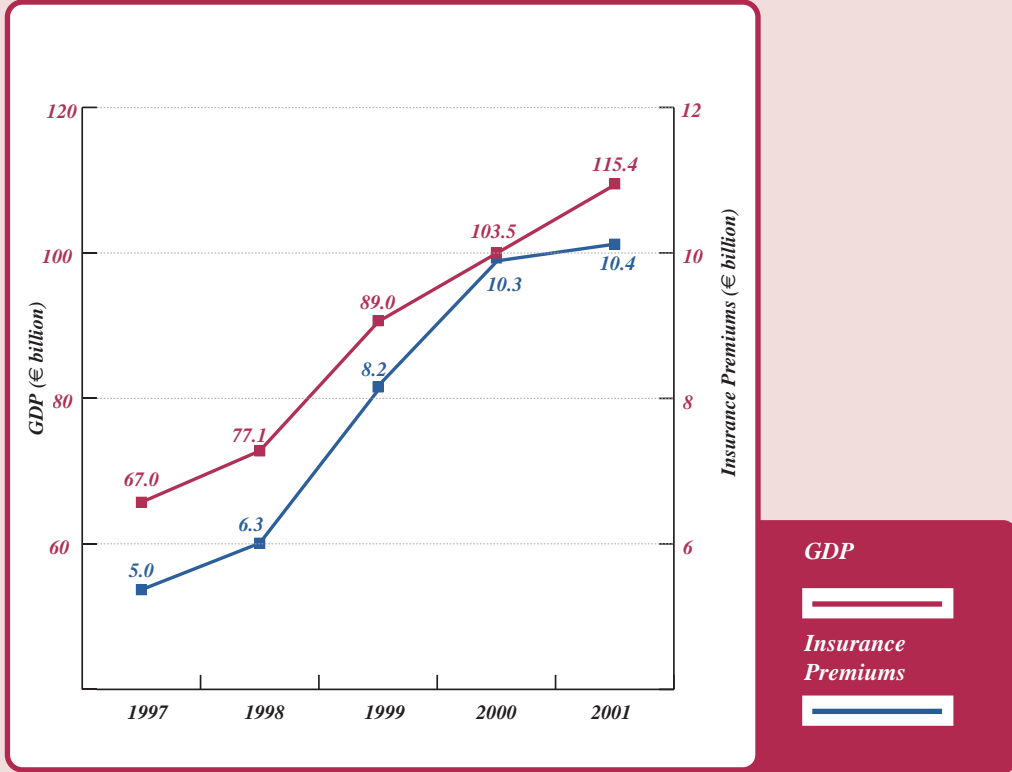
◆ In 2001:

- Irish GDP grew to €115.44 billion, up 11.6% on 2000 (+5.9% in real terms). GNP rose by 11% in 2001 (+5% real growth);
- Inflation between 1996 and 1999 was consistently low, but it rose sharply to 5.6% in 2000. Although it decreased to 4.9% in 2001, this rate is still high in comparison to recent years and our Euroland partners.
- Unemployment continues its year-on-year fall. The unemployment rate in 2001 was at a historic low of 3.7%;
- Gross written premiums from Irish insurance business rose by 1% to €10.4 billion, but in real terms, fell by 3.7%.

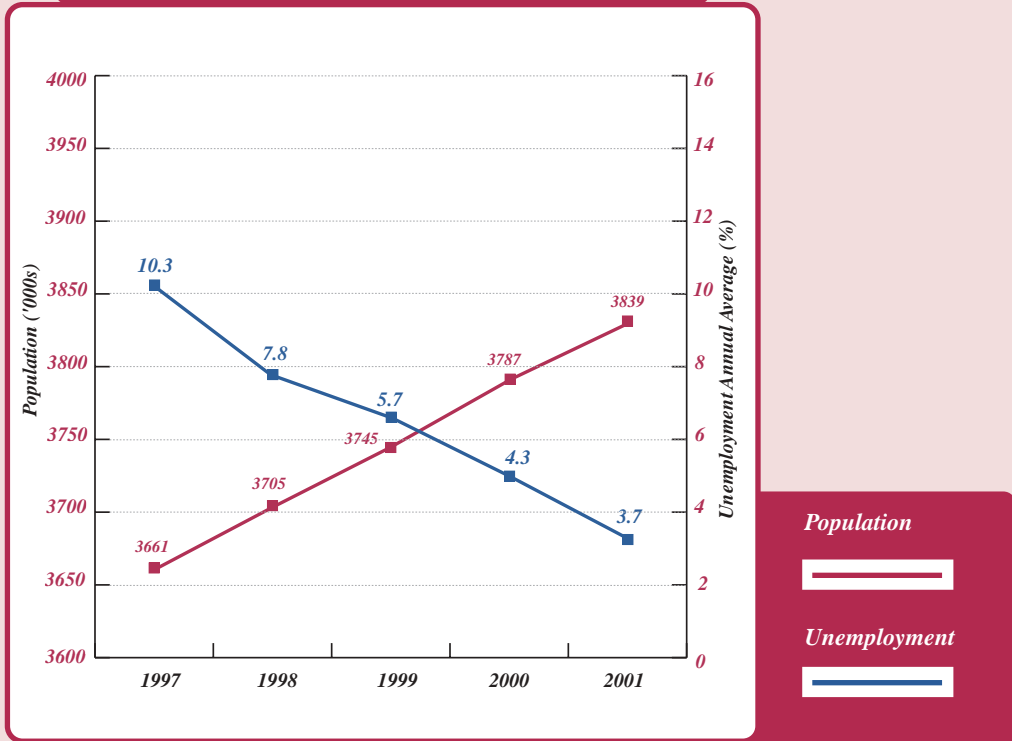
◆ Over the 5 years 1997 - 2001:

- Real GDP growth averaged 9.2% per annum; real growth in GNP was 7.8%;
- The annual average change in price inflation was 3.2%;
- The population grew at an estimated annual average rate of 1.2%;
- Premium income for the insurance industry has increased by an average of 19.5% per annum over this five year period, equivalent to a real growth rate of 15.4% p.a.

**Ireland – GDP; Insurance Premiums 1997-2001**



**Ireland - Population; Unemployment 1997-2001**



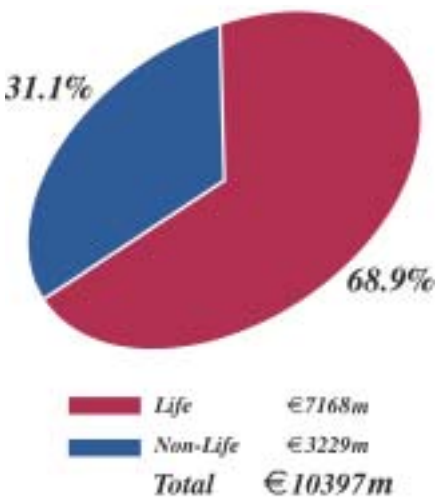
*factfile two***Key Insurance Statistics 1997-2001**

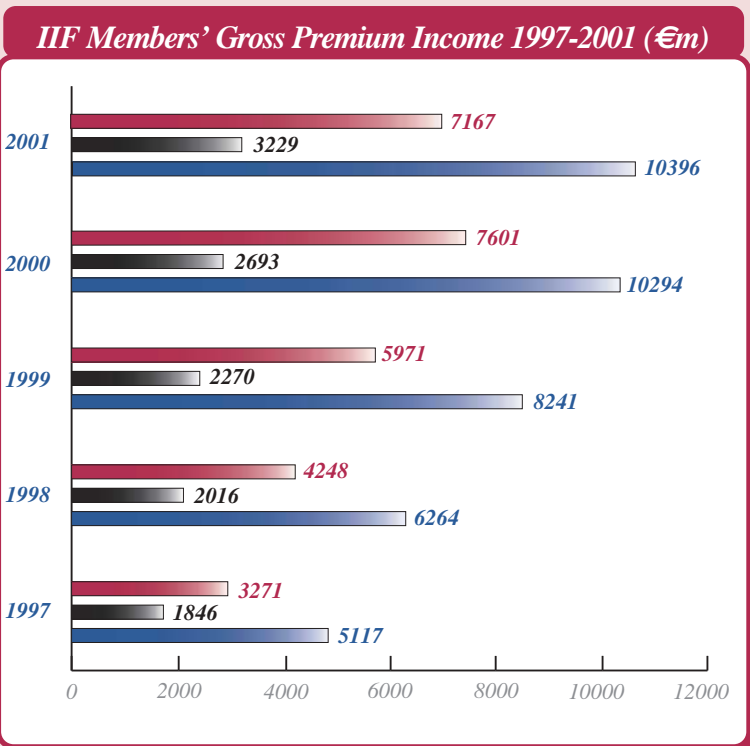
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2001 KEY DATA	LIFE	NON-LIFE	TOTAL
<b>Gross Premium Income (€m)</b>	7168	3229	10397
<b>Premium Income:GDP(%)</b>	6.21	2.80	9.01
<b>Premiums per capita (€m)</b>	e1867	e841	e2708
<b>Investments<sup>1</sup> (€m)</b>	40058	7354	47412

*e = estimated*<sup>1</sup>Policyholders' funds (Life assurance); Technical Reserves (Non-life insurance)

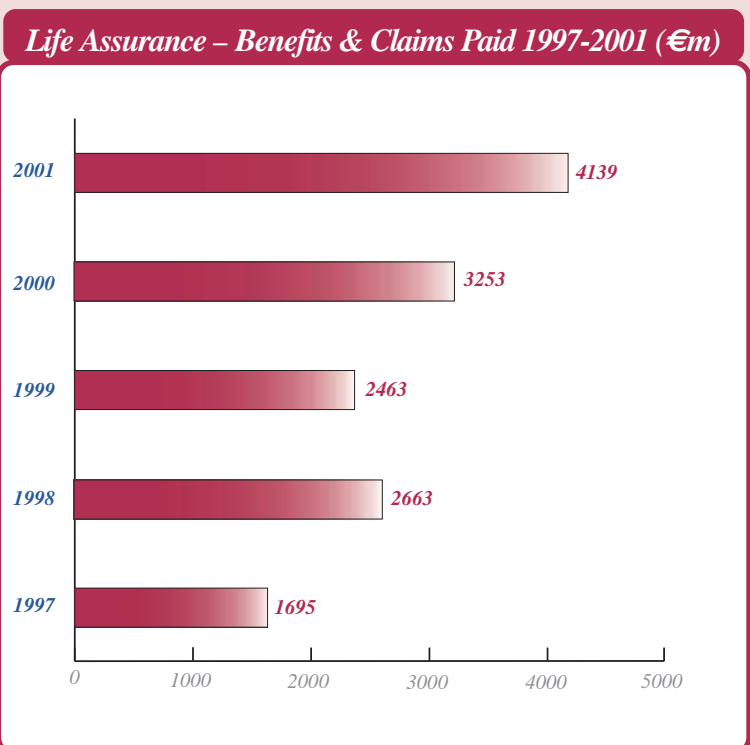
- ◆ In 2001, IIF members' Irish risk gross premium income increased by 0.9% from €10.3 billion in 2000 to €10.4 billion.
- ◆ Life premiums decreased by 5.7% to €7.2 billion in 2001. The average annual growth of the domestic life sector in the 5 years 1997-2001 was 21.7%.
- ◆ Non-life premiums increased by 19.9% to €3.2 billion in 2001. The average annual increase in non-life premiums for 1997-2001 was 15%.
- ◆ Premium income as a percentage of GDP decreased from 9.9% in 2000 to 9% in 2001 (life 6.2%; non-life 2.8%) in the context of economic growth of 11.5% in 2001.
- ◆ Premiums per head of population have marginally decreased from €2721 in 2000 to €2708 in 2001 (down 0.5%).

**Gross Premium Income 2001**



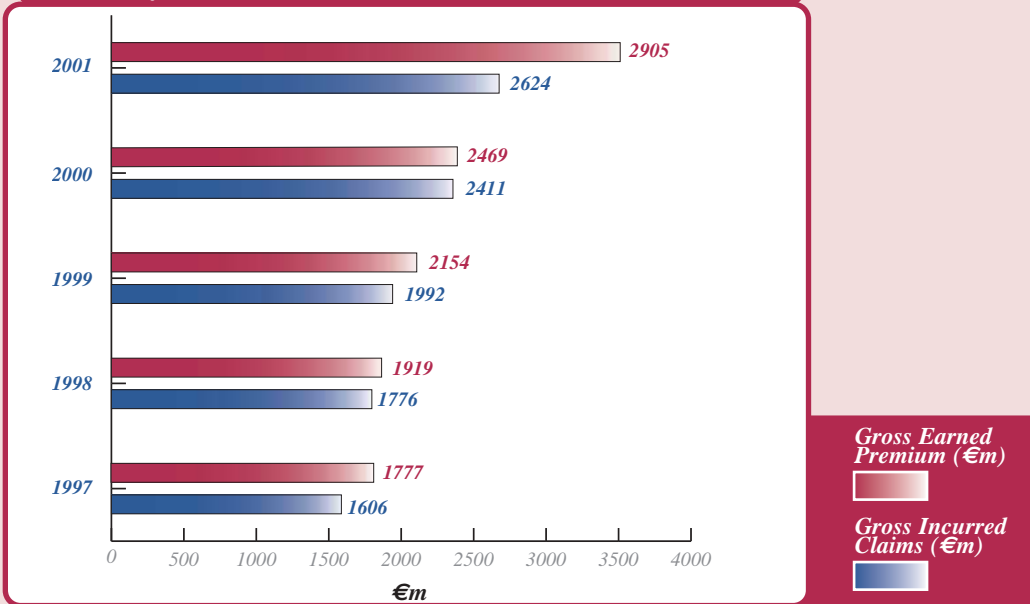
#### 5-Year Trends

- ◆ Life premium income decreased by 5.7% in 2001 however it has increased by 21.7% per annum (compound) from 1997 to 2001.
- ◆ Non-life gross written premium (GWP) increased by 19.9% in 2001, and at a compound annual rate of 15% since 1997.



- ◆ Life assurance benefits and claims paid increased by 27.2% in 2001 to €4139m, compared with €3253m in 2000.
- ◆ Life benefits and claims increased by an average figure of 25% p.a. from 1997 to 2001.

### Non-life Insurance Premiums & Claims 1997-2001 (€m)



- ◆ Non-life gross earned premium (GEP) increased by 17.7% in 2001, reaching €2.9 billion. GEP has increased at an average of 13.1% per annum from 1997 to 2001.
- ◆ Gross incurred claims costs (claims payments plus increase in reserves for outstanding claims) grew by 8.8% in 2001, amounting to €2.62 billion for the year. Claims costs increased by

13.1% per annum from 1997 to 2001.

- ◆ Non-life gross written premiums grew at an annualised rate of 15% per annum between 1997 and 2001. This rate is consistent with general economic growth (GDP) of 14.6% per annum over the same period - see *Factfile One*.

### Year-end Value of Investments \*€bn

	1997	1998	1999	2000	2001	% Change p.a.
<b>Life</b>	25.429	30.394	36.587	39.550	40.058	+12.0%
<b>Non-life</b>	4.764	4.951	5.622	6.598	7.354	+11.5%
<b>Total</b>	30.193	35.345	42.209	46.148	47.412	+11.9%

\*Policyholder funds (life); Technical reserves (non-life).

- ◆ Year-end market value of investments representing life policyholders' funds and non-life technical reserves rose by 2.7% in 2001. The total value of investments was €47.412 billion at the end of 2001.
- ◆ Over the 5-year period 1997 - 2001, investment values have risen by an average of 11.9% per annum.
- ◆ Life policyholders' funds rose by 1.3% to €40.058 billion in 2001; non-life technical reserves increased by 11.5% to €7.354 billion in 2001.
- ◆ Over the five years 1997 - 2001:
  - life policyholders funds have increased by 12% per annum;
  - non-life technical reserves have increased by 11.5% per annum.
- ◆ In addition to these investments, insurance companies hold significant investments representing free reserves and shareholders' funds.
- ◆ Although the proportion of assets invested in Ireland has fallen in recent years, with the relaxation of regulatory and exchange controls and the creation of the European single currency, the majority of insurers' investments, by value, is still in Ireland.
- ◆ For a more detailed breakdown of IIF life members' investments, by location and category, see *Factfile Three*.

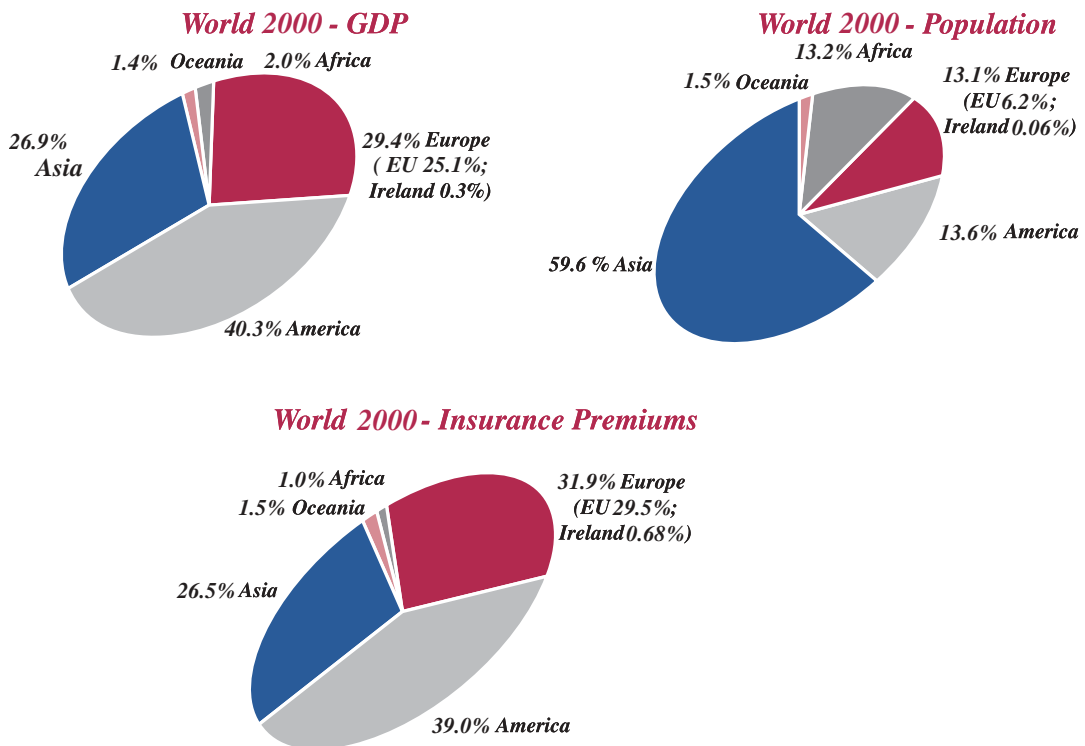
### The Irish Insurance Market in the World 2000

	Global Share %					Insurance Premiums (gross)	
	Population	GDP	Insurance Premiums (gross)			As % GDP	Per Capita US \$
			Life	Non-life	Total		
<b>Ireland</b>	0.06	0.3	0.86	0.38	0.68	9.9	2552
<b>EU</b>	6.2	25.1	30.9	27.2	29.5	8.8	1839
<b>Europe</b>	13.1	29.4	32.9	32.6	31.9	8.1	945
<b>America</b>	13.6	40.3	31.5	49.0	38.0	7.5	1165
<b>Asia</b>	59.6	26.9	32.8	15.8	26.5	7.7	179
<b>Oceania</b>	0.5	1.4	1.9	1.6	1.6	8.8	1316
<b>Africa</b>	13.2	2.0	1.4	1.2	1.0	4.0	31
<b>WORLD</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>7.8</b>	<b>404</b>

Sources: IIF; Swiss Re sigma No. 6/2001; CSO.

- ◆ The table gives a perspective on the Irish insurance market on the global stage, comparing key economic and insurance data for Ireland with the EU, the wider continent of Europe, and other continents.

### World GDP, Population, Insurance Premiums 2000

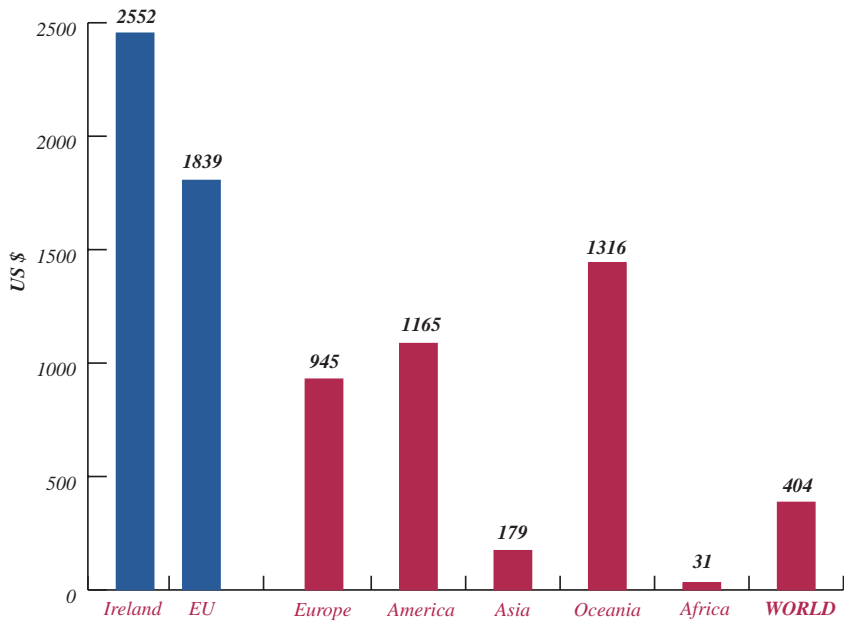


- ◆ The Irish economy and insurance market account for only tiny fractions of world outputs, but in proportion to both national population and GDP, insurance premium income in Ireland is more significant than in many other parts of the world.
- ◆ In 2000 gross premiums as a proportion of GDP were 9.98% in Ireland, significantly above the global figure (7.8%) and premiums:GDP for
  - > Oceania (8.8%);
  - > Europe (8.1%);
  - > Asia (7.7%);
  - > America (7.5%) and,
  - > Africa (4.0%).





### Per Capita Expenditure on Insurance 2000



- ◆ Insurance premiums per head of population in Ireland were to US \$2552 in 2000. This figure ranks well above the European premium per capita figure of US \$945, the EU figure of US \$1839, the American figure of \$1165 and the world per capita figure of US \$404.

*factfile three**The Life Assurance & Pensions Market*

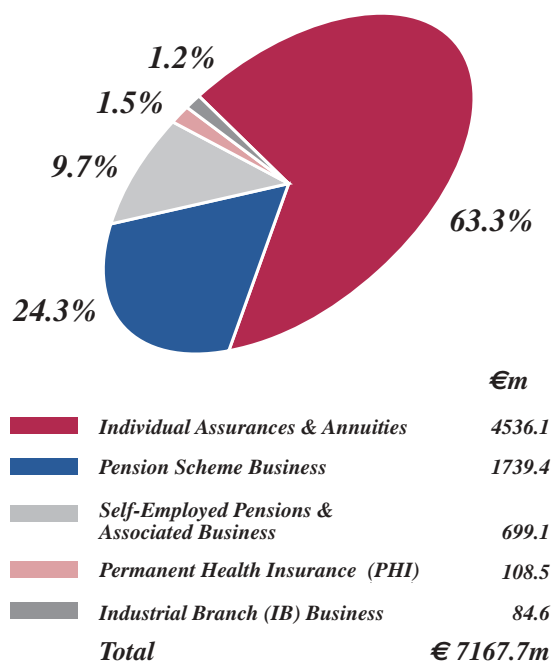
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*2001 Key Statistics*

	NEW BUSINESS (€m)			Total Annual Premium €m (3)	All Business €m (2+ (3))
	Annual Premium (1)	Single Premium (2)	APE (1) + 10% of (2)		
<i>Individual Assurances &amp; Annuities</i>	444.7	3075.9	752.3	1460.2	4536.1
<i>Self-Employed Pensions</i>	102.4	294.2	131.8	404.9	699.1
<i>Pension Scheme Business</i>	295.6	844.7	380.0	894.7	1739.4
<i>Permanent Health Insurance (PHI)</i>	18.0	0	18.0	108.5	108.5
<i>Industrial Branch (IB) Business</i>	7.5	0	7.5	84.6	84.6
<i>Total</i>	868.2	4214.8	1289.6	2952.9	7167.7

*Premium Income*

- ◆ In 2001, the IIF's domestic life assurance members had aggregate premium income of €7167.7m, a decrease of 5.7% on the previous year (€7601m).
- ◆ The total value of life assurance protection in force at the end of 2001 was estimated at €183bn (€160bn in 2000).
- ◆ New annual premium (AP) business was €868.2m.
- ◆ New single premium (SP) business was €4214.8m.
- ◆ The new business Annual Premium Equivalent (AP business + 10% of SP business) was €1289.6m.

*Life Assurance GPI 2001  
(by type of policy)*

## Claims and Benefits

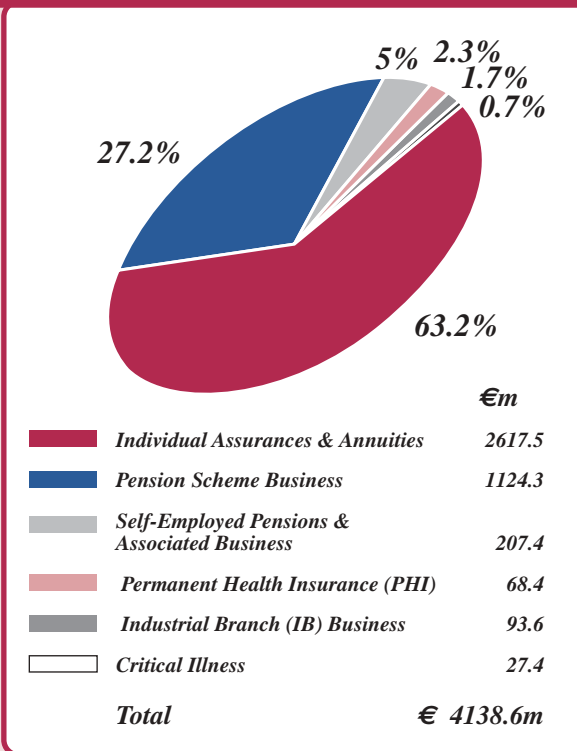
- ◆ Claims payments by domestic life assurance companies were €4139m in 2001 (€3253m in 2000).
- ◆ The bulk of claims were paid under individual assurance/annuity contracts (63.2%) and pension schemes (27.2%).

### Claims By Type (€m)

<i>Death/Critical Illness Claims</i>	409.4
<i>Surrenders and Maturities</i>	3455.5
<i>Annuities</i>	273.7
<b>Total</b>	<b>4138.6</b>

- ◆ Death and critical illness claims under protection contracts amounted to €409.4m in 2001.
- ◆ Benefits paid on policy surrenders and maturities were €3455.5m.
- ◆ Annuity payments were €273.7m.

### Life Assurance Claims & Benefits Paid 2001 (by type of policy)



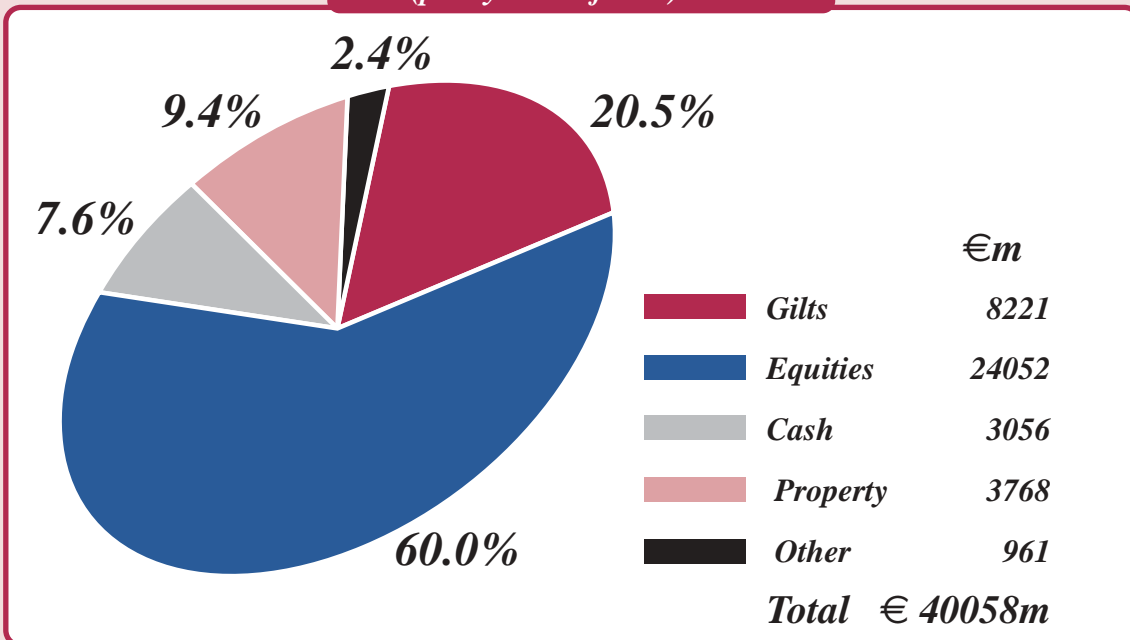
### Source of New Business

		Brokers %		Agents %		Tied Agents %		Employees & Company Representatives %		Direct %	
		2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
		Annual Premium	Life	15	8	1	1	11	17	18	25
	Pensions	29	25	1	1	9	10	14	9	1	3
	<b>Total</b>	<b>44</b>	<b>33</b>	<b>2</b>	<b>2</b>	<b>20</b>	<b>27</b>	<b>32</b>	<b>34</b>	<b>2</b>	<b>4</b>
Single Premium	Life	49	34	1	3	7	17	14	7	4	1
	Pensions	21	32	0	1	0	2	2	2	2	1
	<b>Total</b>	<b>70</b>	<b>66</b>	<b>1</b>	<b>4</b>	<b>7</b>	<b>19</b>	<b>16</b>	<b>9</b>	<b>6</b>	<b>2</b>

### Source of New Business

- ◆ Brokers' new business market share decreased by 11% in 2001 for annual premium (AP) business. There was also a decrease of 4% in brokers' single premium (SP) business.
- ◆ Independent agents' AP business remained static, but their share of SP business increased from 1% to 4% in 2001.
- ◆ The percentage of both AP and SP business written through tied agents increased significantly in 2001, with AP business increasing by 7% and SP business increasing by 12%.
- ◆ Life office employees / company representatives increased their share of AP business while their SP business decreased.
- ◆ Direct sales (i.e. other than through employees/representatives) remain a relatively small part of the market, at 4% of AP and 2% of SP.

### Life Assurance Investments (policyholder funds) 2001



### Investments (Policyholders' Funds)

- ◆ Investment of policyholders' funds by IIF life members reached €40,058m in 2001 (up from €39,547m in 2000, a rise of 1.3%).

Investments (policyholder funds)			
	Irish €m	Foreign €m	Total €m
<i>Gilts</i> <sup>1</sup>	3416	4805	8221
<i>Equities</i> <sup>2</sup>	10820	13232	24052
<i>Cash</i>	2843	213	3056
<i>Property</i> <sup>3</sup>	3183	585	3768
<i>Other</i>	955	6	961
<b>Total</b>	<b>21217</b>	<b>18841</b>	<b>40058</b>

<sup>1</sup>Inc. Government, local & public authority securities

<sup>2</sup>Inc. preference, guaranteed and ordinary stocks and unit trusts

<sup>3</sup>Inc. own use buildings, office, residential, commercial and individual investment properties and debenture stocks

- ◆ The bulk of life company investments – 53% - are in Ireland (slightly lower than in 2000). Domestic investment at the end of 2001 was €21,217m, with foreign investment at €18,841m.
- ◆ 51% of Irish investments are in equities (up from 43% in 2000), with 16% in gilts (down from 28% in 2000). Cash at 13% was the same as in 2000, and property holdings were up at 15%.
- ◆ Of the foreign holdings, 70% are in equities (up from 67% the year before) and 26% are in gilts (down from 28% in 2000) with relatively small holdings of property, cash and other investments, totalling just over 4% of total foreign investments.



## Trends 1997-2001

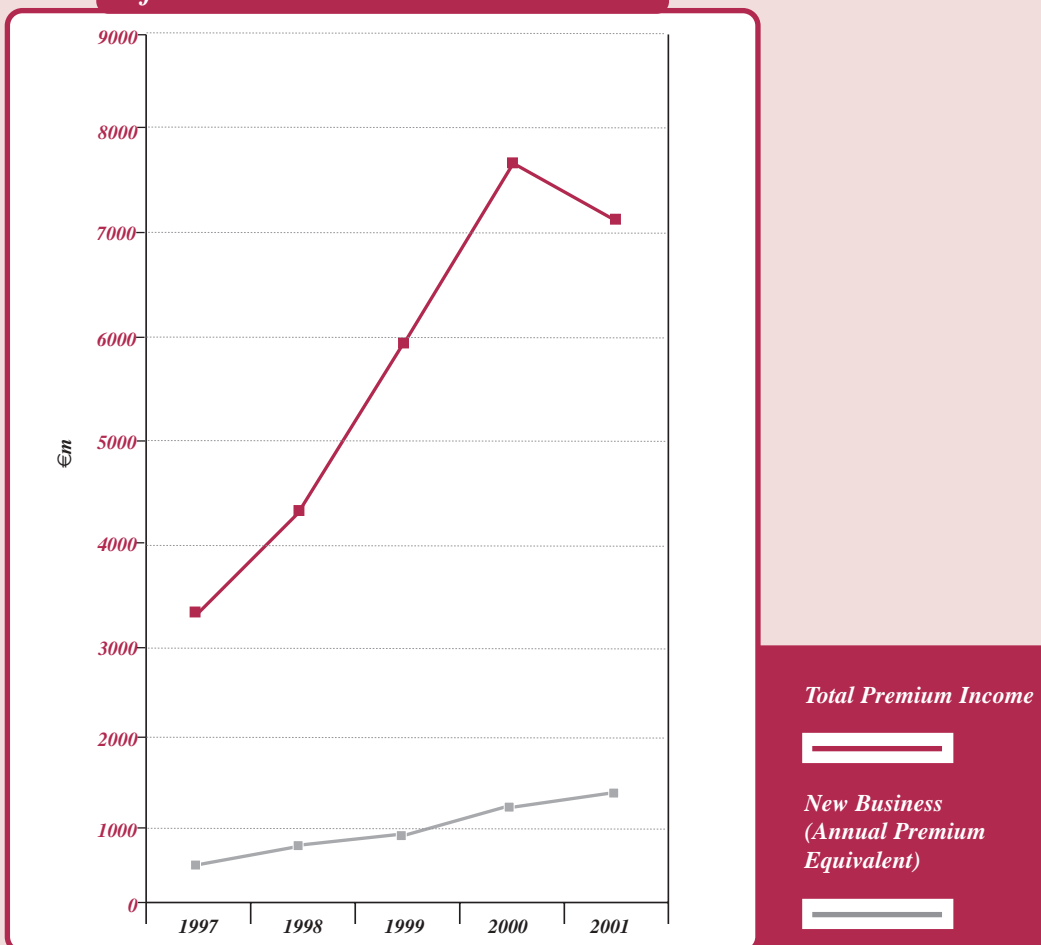
<i>Premiums &amp; Claims</i>						
€m	1997	1998	1999	2000	2001	Annual change 1997-01
Premium Income (Annual Premium Business)	1558	1830	2082	2378	2953	17.3%
Premium Income (All Business)	3271	4249	5972	7601	7168	21.7%
<i>New Business</i>						
• Annual Premiums	349	483	566	678	868	25.6%
• Single Premiums	1637	2419	3898	5222	4215	26.7%
• Annual Premium Equivalent (APE)	513	724	956	1199	1290	25.9%
Benefits & Claims Paid	1694	2664	2463	3253	4139	25.0%

### Premiums & Claims

Over the five years 1997 to 2001:

- ◆ Annual premium business increased from €1558m to €2953m, an average rise of 17.3% per annum.
- ◆ Total premium income increased over the same period from €3271m to €7168m (up 21.7% p.a.)
- ◆ New annual premium business increased at an average rate of 25.6% p.a., from €349m in 1997, to €868m in 2001.
- ◆ Single Premiums rose from €1637m to €4215m – an average increase of 26.7% p.a.
- ◆ On an APE basis new business has risen from €513m in 1997 to €1290m in 2001 (up 25.9% p.a.)
- ◆ Benefits paid increased by 27.9% in 2001, increasing by an average of 25% over the period 1997 – 2001.

*Life Assurance Premium Income 1997-2001*



**Investments (by type)**

<i>% of total value</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
<i>Gilts<sup>1</sup></i>	<i>30.0</i>	<i>31.5</i>	<i>26.1</i>	<i>27.7</i>	<i>20.5</i>
<i>Equities<sup>2</sup></i>	<i>54.0</i>	<i>51.0</i>	<i>56.5</i>	<i>53.6</i>	<i>60.0</i>
<i>Cash</i>	<i>7.8</i>	<i>8.0</i>	<i>7.7</i>	<i>8.2</i>	<i>7.6</i>
<i>Property<sup>3</sup></i>	<i>7.1</i>	<i>7.9</i>	<i>8.2</i>	<i>8.9</i>	<i>9.4</i>
<i>Other</i>	<i>1.1</i>	<i>1.8</i>	<i>1.5</i>	<i>1.6</i>	<i>2.4</i>
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

<sup>1</sup>*Inc. Government, local & public authority securities*

<sup>2</sup>*Inc. preference, guaranteed and ordinary stocks and unit trusts*

<sup>3</sup>*Inc. own use buildings, office, residential, commercial and individual investment properties and debenture stocks*

Since 1997:

- ◆ Investment in gilts has decreased from 30.0% in 1997 to 20.5% in 2001.
- ◆ The property portfolio has increased from 7.1% in 1997 to 9.4% in 2001.
- ◆ Equities have increased as a percentage of total investments, from 54.0% in 1997, to 60% in 2001.
- ◆ Investment in other assets has increased from 1.1% in 1997 to 2.4% in 2001.
- ◆ Cash holdings have been relatively steady at around 7% to 8%.

**Investments (by location)**

<i>% of total value</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
<i>In Ireland</i>	<i>75.3</i>	<i>72.3</i>	<i>59.0</i>	<i>57.0</i>	<i>53.0</i>
<i>Outside Ireland</i>	<i>24.7</i>	<i>27.7</i>	<i>41.0</i>	<i>43.0</i>	<i>47.0</i>

- ◆ Generally the proportion of investments in Ireland has been reducing and the proportion outside Ireland has been increasing.



**IIF IFSC Members' New Business 1998-2001 €m**

	1998			1999			
	Annual Premium	Single Premium	APE	Annual Premium	Single Premium	APE	
<i>EU</i>	64.5	885.2	153.0	111.1	897.7	200.8	
<i>Non-EU</i>	17.0	191.6	36.2	16.5	236.4	40.1	
<i>Total</i>	81.5	1076.8	189.2	27.6	1134.1	241.0	

	2000			2001			Annualised Change % (APE) 1998-2001
	Annual Premium	Single Premium	APE	Annual Premium	Single Premium	APE	
<i>EU</i>	140.4	1634.7	303.9	94.9	1299.2	224.8	13.7%
<i>Non-EU</i>	15.3	436.2	58.9	2.4	1001.5	102.6	41.5%
<i>Total</i>	155.7	2070.9	362.8	97.3	2300.7	327.4	20.0%

- ◆ In 2001, IIF's IFSC life assurance members wrote foreign annual premium business of €97.3m (down by 37.5% on 2000 )
- ◆ New single premium business increased by 11%, to €2300.7m.
- ◆ New Annual Premium Equivalent (APE) sales were €327.4m in 2001 (down 10% on the previous year).
- ◆ The proportion of new business (APE) sourced in EU countries decreased from 83.8% to 68.7%.

# factfile four

## The Non-life Insurance Market

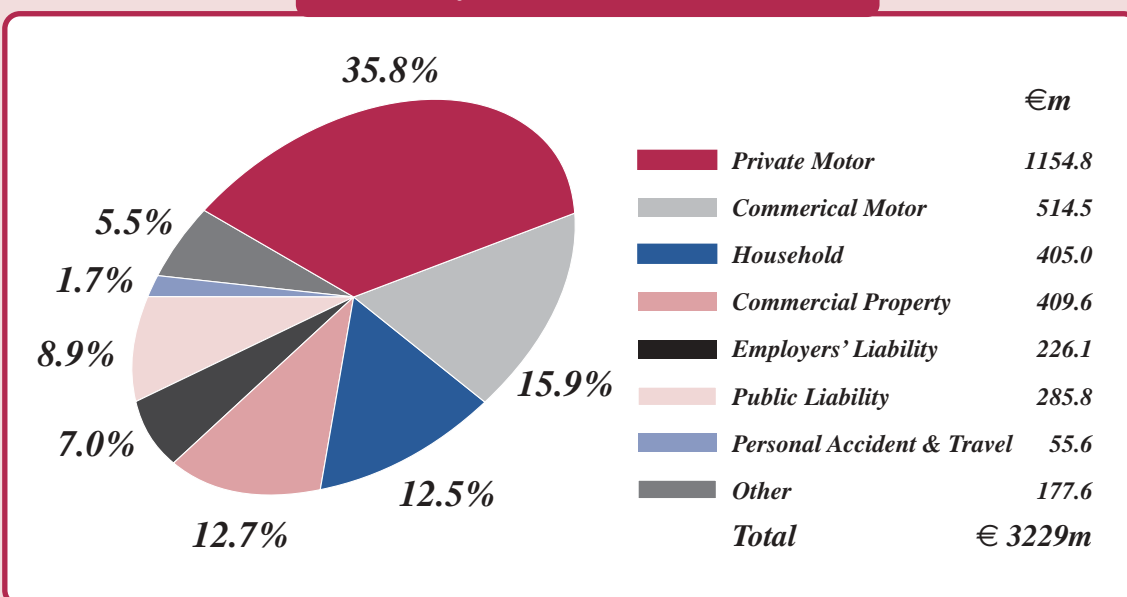
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### 2001 Key Statistics

Class of Business	PREMIUMS			CLAIMS		Net Underwriting Result €m	Estimated Investment Income €m	Estimated Net Operating Result €m
	Written		Earned	Net	Number of			
	Gross €m	Net €m	Net €m	Incurred €m	New Claims Notified			
Private Motor	1154.8	1120.3	1022.3	976.6	170589	-107.2		
Commercial Motor	514.5	487.3	433.9	441.6	62133	-66.9		
<b>All Motor</b>	<b>1669.3</b>	<b>1607.6</b>	<b>1456.2</b>	<b>1418.2</b>	<b>232722</b>	<b>-174.1</b>	<b>157.0</b>	<b>-17.1</b>
Household	405.0	353.6	307.7	277.2	126754	-52.6		
Commercial Property	409.6	290.0	264.9	171.6	20278	11.4		
<b>All Property</b>	<b>814.6</b>	<b>643.6</b>	<b>572.6</b>	<b>448.8</b>	<b>147032</b>	<b>-41.2</b>	<b>33.0</b>	<b>-8.2</b>
Employer's Liability	226.1	204.0	181.6	207.6	11752	-62.1		
Public/Product Liability	285.8	244.0	213.6	268.2	15192	-101.5		
<b>All Liability</b>	<b>511.9</b>	<b>448.0</b>	<b>395.2</b>	<b>475.8</b>	<b>26944</b>	<b>-163.6</b>	<b>90.0</b>	<b>-73.6</b>
Personal Acc./Travel	55.6	49.1	45.0	23.8	13447	4.7	3.0	7.7
Other Classes	177.6	123.2	99.1	39.1	22365	13.0	11.0	24.0
<b>ALL BUSINESS</b>	<b>3229.0</b>	<b>2871.5</b>	<b>2568.1</b>	<b>2405.7</b>	<b>442510</b>	<b>-361.2</b>	<b>294.0</b>	<b>-67.2</b>

- ◆ The IIF's non-life members write approximately 95% of domestic non-life premiums. In 2001 IIF members wrote gross premiums of €3229m.
- ◆ Net written premiums (i.e. total premiums after reinsurance costs have been deducted) were €2871.5m (up over 22% on 2000).
- ◆ Net earned premiums were €2568.1m in 2001, an increase of 18.2% on 2000).
- ◆ In 2001, net incurred claims rose by 12.5% to €2405.7 m.
- ◆ In 2001, IIF members received a total of over 442,000 new claims notifications.
- ◆ The net underwriting result of the non-life market in 2001 improved to a loss of €361.2m from a loss of €453m in 2000.
- ◆ In 2001 underwriting losses exceeded investment returns on technical reserves delivering an estimated net operating result of -€67m. This negative result forced premium rates upwards in the market place.

#### Non-life Premium Income 2001





### Key Ratios

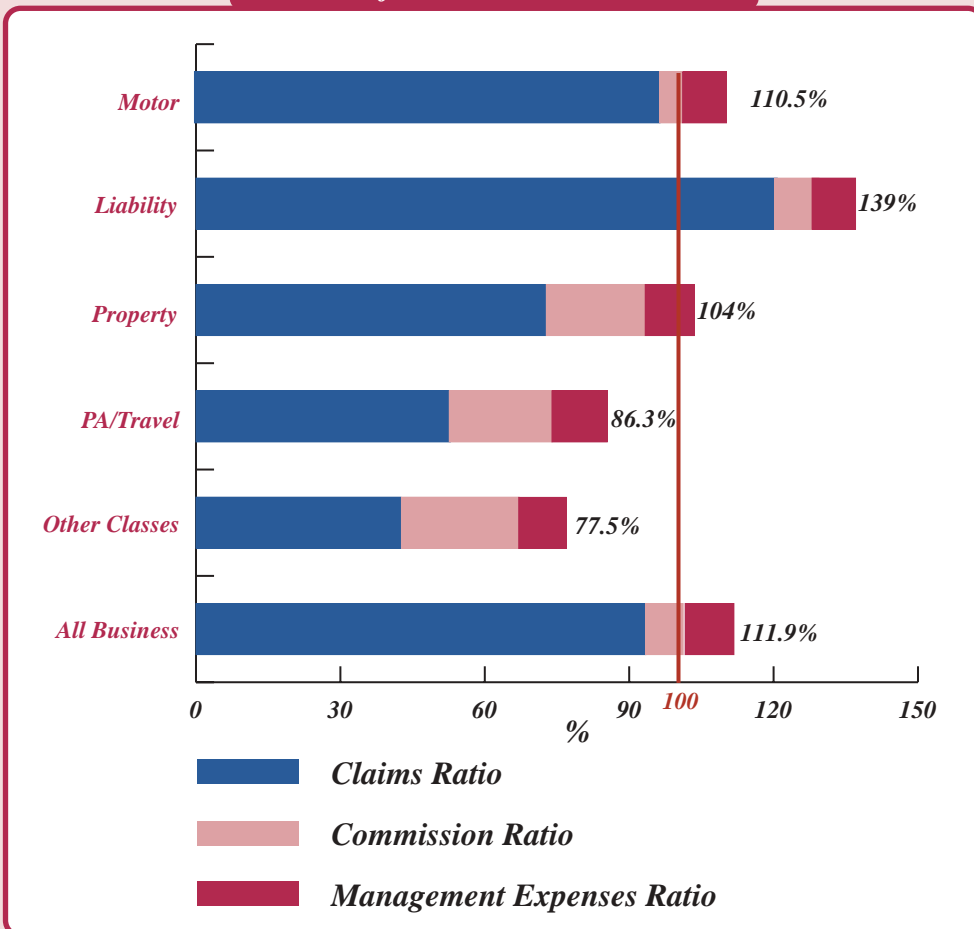
◆ A number of key ratios are used to assess the cost of claims, and the efficiency and profitability of non-life insurance business:

➤ The claims ratio measures the cost of claims as a proportion of premiums earned. In 2001 the IIF non-life market produced a net claims ratio of 94% - in other words claims cost 94 cent out of every €1 earned in premium. The claims ratio varied between sectors: in motor insurance it improved from 109% in 2000 to 97% in 2001, whereas the property claims ratio worsened from 74% in 2000 to over 78% in 2001. Liability insurance continues to operate at a claims ratio well in excess of 100% - in 2001 it was 120%. This means that, even before account is taken of management and other expenses associated with the administration of liability insurance business, claims incurred cost 20% more than premiums earned;

➤ The **management expenses** and **commission ratios** are calculated by comparing the internal management expenses of insurance companies and commissions paid to intermediaries with the total value of written premium. The overall commission ratio in 2001 was 7.8%, varying from 3.5% in motor insurance to 7.2% for liability, 14.5% for property, 19.3% for PA and travel and 26.4% for other classes of business which traditionally attract much higher commissions than the major lines. The management expenses ratio for the non-life market in 2001 was 10.4%, down from 12.3% in the previous year;

➤ The combined or operating ratio combines the claims, commissions and management expenses ratios. The operating ratio for the non-life market improved from 118% in 2000 to 112% in 2001. In money terms this means that the non-life market lost 12 cent on underwriting insurance for every €1 of premium earned in 2001. The operating ratio for liability business was staggeringly high at 139%.

Non-life Insurance Ratios 2001



### *Motor Insurance*

- ◆ Motor insurance GWP exceeded €1669m in 2001, an increase of 19% on 2000. This increase should be seen against the background of significant economic expansion and in the national vehicle fleet as a whole.
- ◆ Motor insurance business accounts for over 51% of total non-life premium, making motor insurance by far the largest class of business in the Irish non-life market.
- ◆ Nearly 70% of motor insurance premiums are earned from the private motor insurance market, and just over 30% from commercial motor business.
- ◆ Net earned motor premiums increased from €1243m in 2000 to just over €1456m in 2001 (up 17.1%).
- ◆ Net incurred claims costs rose from €1352m to €1418m (up 4.8%).
- ◆ The net underwriting loss in motor insurance decreased, from €289m in 2000 to €174m in 2001. After investment income, motor insurers were left with a net operating loss of approximately €17m for the year.

#### *CSO Consumer Price and Motor Insurance Indices 1997-2001*

<i>Year</i>	<i>Consumer Price Index annual change</i>	<i>Motor Insurance Index annual change</i>
1997	+1.5%	+3.2%
1998	+2.4%	+4.7%
1999	+1.6%	+5.8%
2000	+5.6%	+8.9%
2001	+4.9%	+17.6%
<b>1997/2001</b>	<b>+15.3%</b>	<b>+41.7%</b>

- ◆ Figures from the Central Statistics Office's surveys of the cost of motor insurance show how rates have changed:
  - General inflation, as measured by the Consumer Price Index, has varied between 1.5% and 5.6% annually over the 5-year period 1997 – 2001, although the rate of inflation has decreased in 2001 to 4.9%. Over the full 5 years to the end of 2001 prices increased by 15.3%.
  - Private motor insurance costs are also tracked by the CSO and form part of the "Services" element of the CPI calculation. Motor insurance costs have continued to increase above the general inflation rate. Over the 5 years 1997 – 2001, the cost of motor insurance has increased by 41.7%.
- ◆ Motor insurance rates are principally driven by claims costs. The cost of claims is determined by the number and average cost of claims and by the legal and other costs of handling those claims. Claims frequency is high by international standards though it has reduced in the recent past. However, this favourable trend has been more than offset by continuing significant increases in the average cost of settlements, especially for personal injury claims, and in handling costs. Claims inflation has been well in excess of general price inflation over recent years, leading to higher increases in the motor insurance index than in the CPI.



### *Property Insurance*

- ◆ In terms of size, the property insurance market is split roughly equally between household and commercial property. The property insurance class is the second largest sector in the Irish non-life market after motor insurance.
- ◆ IIF members wrote gross property insurance premiums of just over €814m in 2001, up 26.9% on the previous year.
- ◆ Net written premium increased by 30.3% to €643.6m.
- ◆ Net earned premium at €572.6m and net incurred claims at €448.8m resulted in a net underwriting loss of €41.2m in the property insurance market in 2001, a deterioration on 2000 when the underwriting loss was €22m.
- ◆ With investment income attributable to property insurance business at an estimated €33m in 2001, property insurers incurred an operating loss of just over €8m for the year.

### *Liability Insurance*

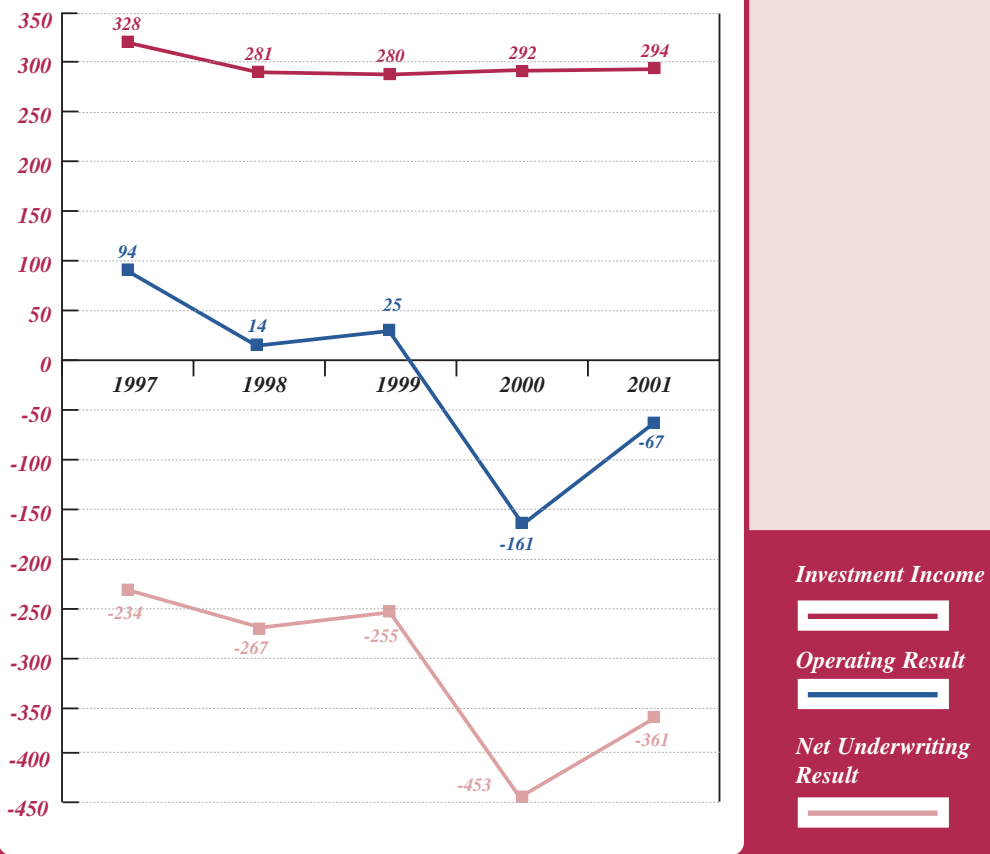
- ◆ The liability insurance market divides in premium income terms between employers' liability (44.2%) and public liability (including product liability and professional indemnity insurances – 55.8%).
- ◆ IIF liability insurance members wrote gross liability premiums of €511.9m in 2001, up 39.8% on the previous year.
- ◆ Net earned premium increased from €321m in 2000 to just over €395m in 2001 (up 22.9%).
- ◆ Net claims incurred rose by 23.1%, resulting in a deterioration in the underwriting result from a loss of €140m in 2000 to a loss of over €163m in 2001.
- ◆ Although technical reserves on liability claims generated investment income of €90m in 2001, the scale of underwriting losses in the market was so big that the market operating loss after investment income reached nearly €74m, over 18% of net premium earned.

### *Other Non-life Lines*

- ◆ Personal accident and travel insurance written by IIF members reached €56m gross in 2001. This class of business generated a modest net underwriting profit of €4.7m, and an operating profit of €7.7m.
- ◆ Other classes of non-life business – including marine aviation and transit (MAT), credit and suretyship, other financial loss covers and legal expenses insurance were worth over €177m in gross premium to IIF members in 2001. These classes produced a net underwriting profit of €13m for the year, and a positive net operating result of €24m after investment income.

## Non-life Insurance 1997 - 2001

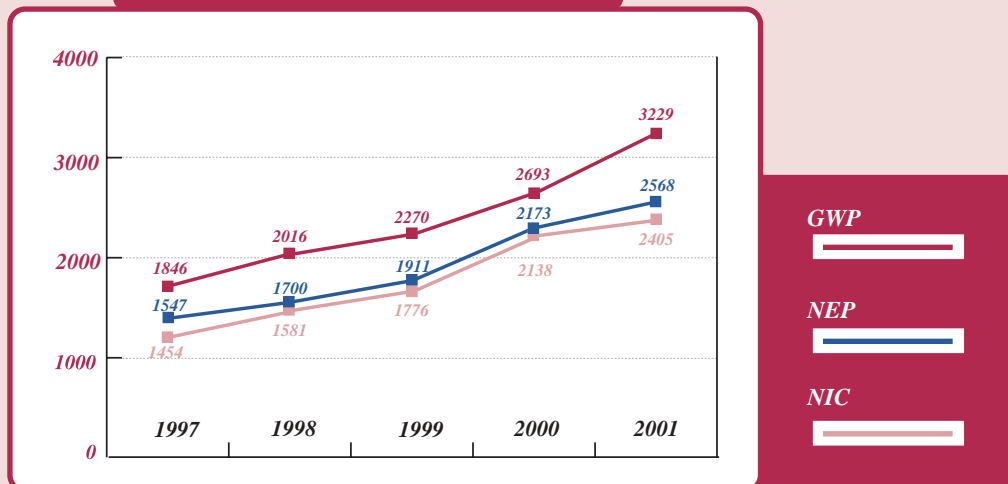
### Underwriting and Operating Results and Investment Income



Sources: 1997-2000: Department of Enterprise, Trade and Employment's "Insurance Annual Report" (the "Blue Book"); 2001: IIF.

- ◆ The graph shows net underwriting result, investment attributable to the underwriting account and the operating result for the non-life insurance market for 1997 – 2001.
- ◆ Investment income on technical reserves (income plus realised gains/losses on disposal of investments and unrealised gains/losses on investment holdings at year end) has in the past enabled insurers to generate a modest operating profit. However, this trend was reversed in 2000 and 2001 when, even after investment income is taken into account, insurers made heavy operating losses of €161 million and €67m respectively.

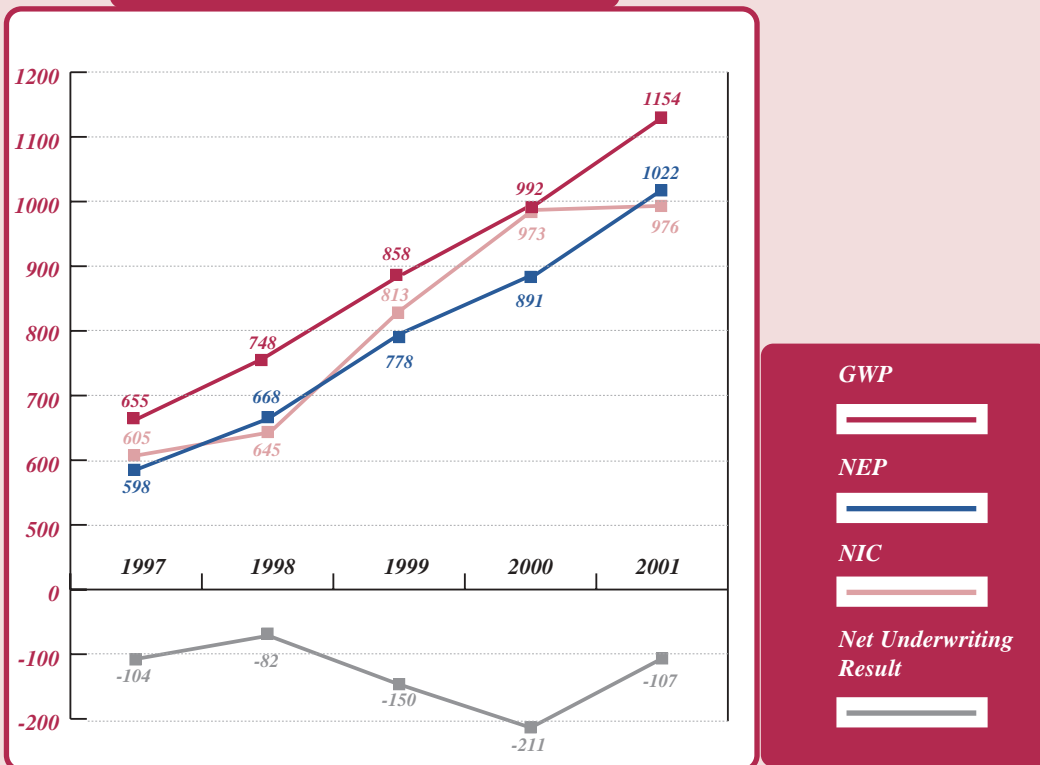
### Premiums and Claims 1997 - 2001



- ◆ Total gross non-life written premium has increased from €1846m in 1997 to €3229m in 2001, an increase of 74.9% (+15% p.a.).
- ◆ Whilst net earned premium increased by 66% during the period 1997 – 2001 claims costs increased by 65%. The underwriting result has deteriorated from a loss of €234m in 1997 to a loss of €361m in 2001 (see previous graph).

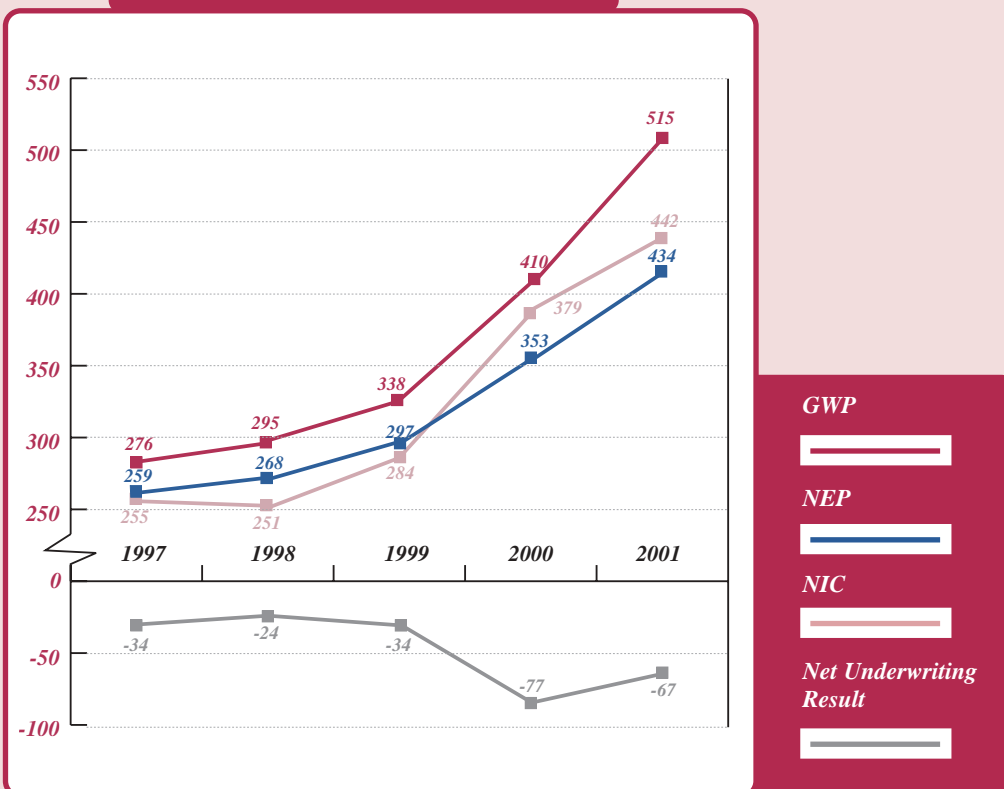
The following seven graphs illustrate the 1997 - 2001 trends in the underwriting revenue accounts for each class of business:

**Private Motor 1997 - 2001**



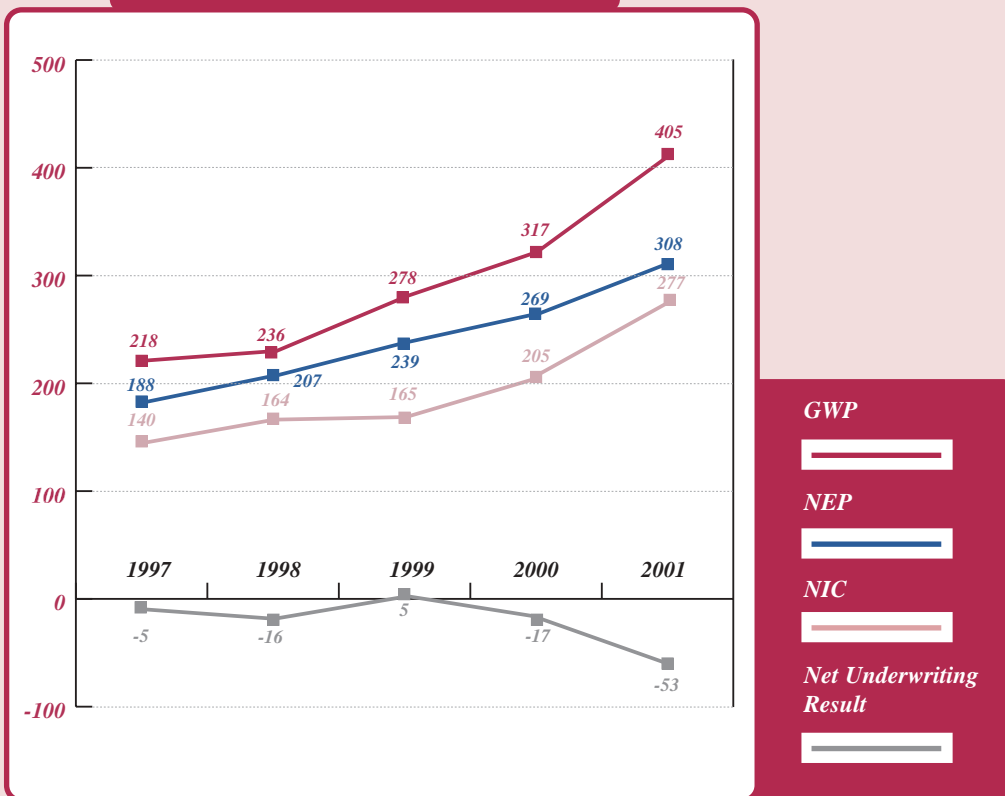
◆ **Private motor:** While the market has increased significantly in size, from €655m in 1997 to €1155m in 2001 (growth at 15.2% p.a.), the claims ratio has remained very high, with claims costs exceeding earned premium in 1997, 1999 and 2000. The net underwriting result improved to a loss of €107m in 2001 from a loss of €211m in 2000.

**Commercial Motor 1997 - 2001**



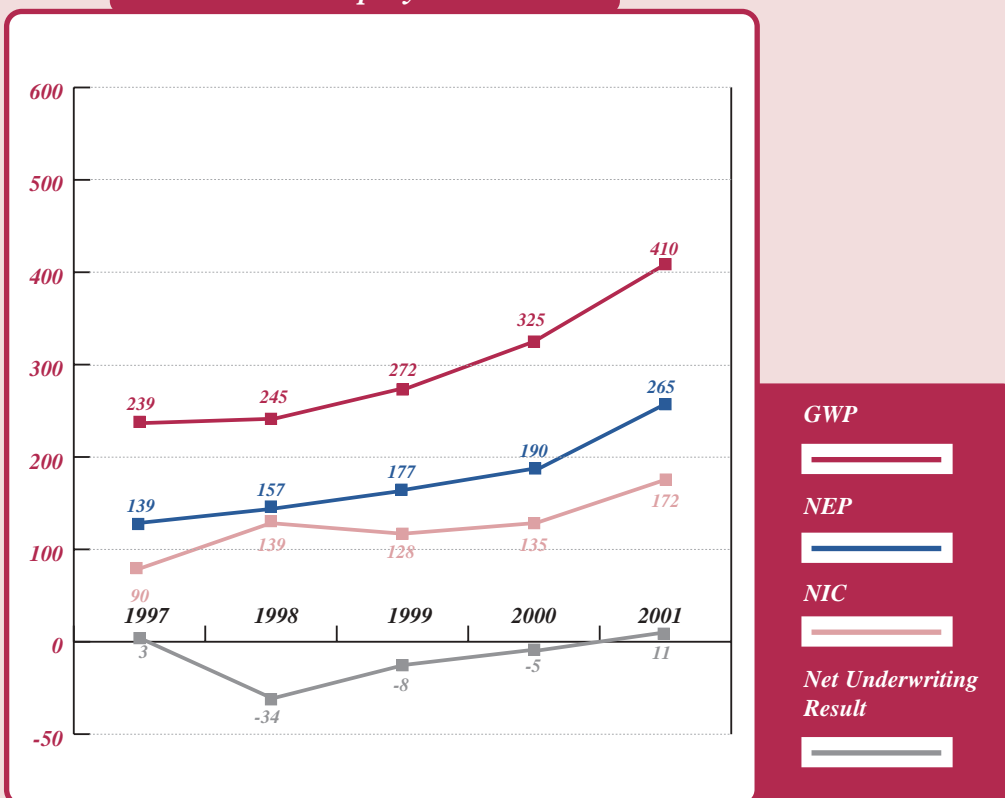
◆ **Commercial motor:** The size of the commercial motor insurance market has increased by 86.5% in the five year period 1997 – 2001. Incurred claims exceeded earned premium in both 2000 and 2001. However the underwriting result improved from a loss of €77m in 2000 to that of €67m in 2001.

### Household 1997 - 2001



◆ **Household:** The household insurance account registered an underwriting loss of €53m in 2001 despite GWP growth of 28%. This is a significant deterioration on the 2000 figure of a loss of €17m and the worst result of the last five years, due to an increase of 35% in the net cost of claims.

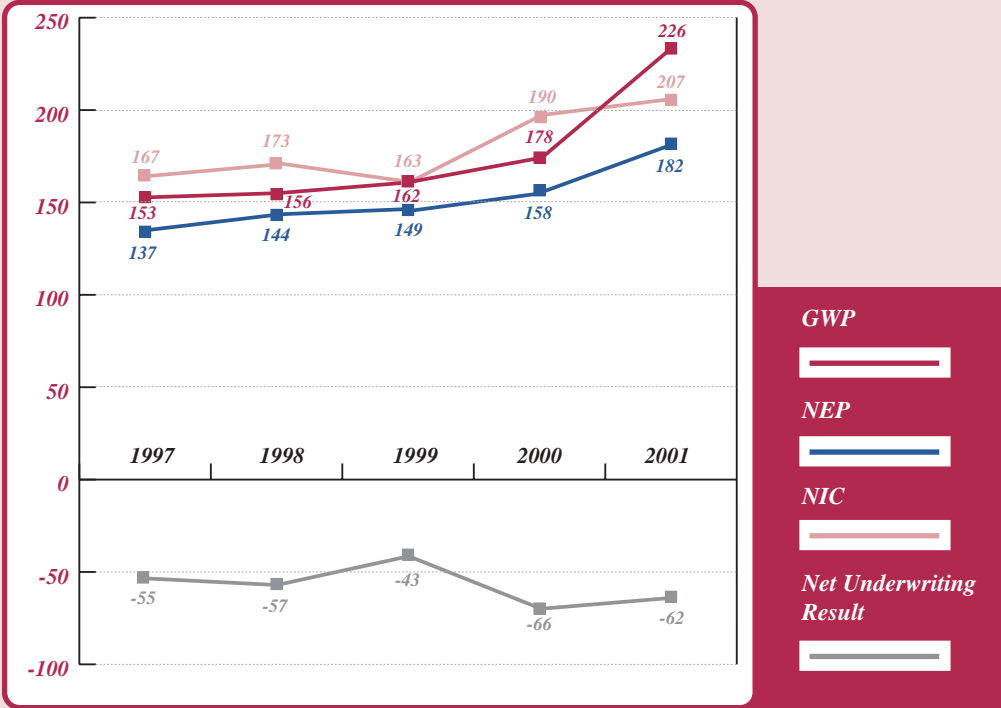
### Commercial Property 1997 - 2001



◆ **Commercial property:** Commercial property insurance made an underwriting profit in only two of the five years under review. From an underwriting profit of €3m in 1997, there was a significant deterioration in 1998 – however this underwriting loss improved in 1999 and 2000 and a profit of €11m was recorded in 2001.

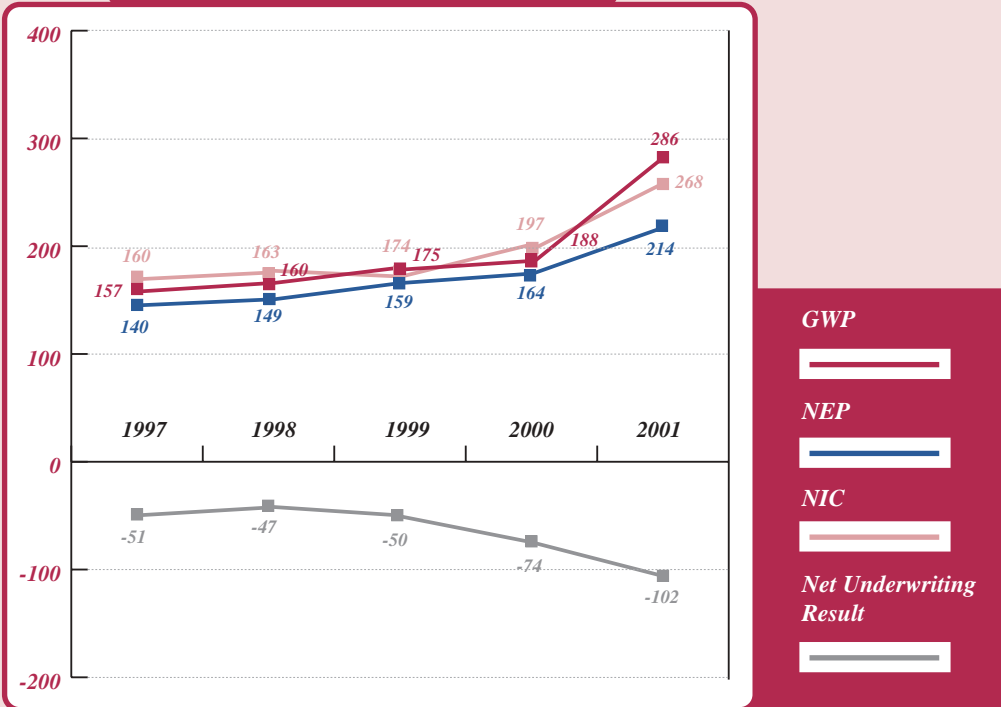


### Employer's Liability 1997 - 2001



◆ **Employer's liability:** The continuing poor underwriting results in the employer's liability class are cause for extreme concern. As can be seen from the above graph, net claims costs have exceeded earned premium in each of the last five years, contributing to accumulated net underwriting losses of €283m in the period 1997 – 2001.

### Public Liability 1997 - 2001



◆ **Public liability:** As with employer's liability, there have been consistent underwriting losses, reaching a low of €102m in 2001. Underwriting losses in public and employer's liability, compared to the overall size of the liability insurance market, are significantly worse than motor insurance losses.

**Other Classes 1997 - 2001**



◆ **Other classes (including personal accident, travel, and financial loss insurances):**

The situation is healthier than in the motor, property, and liability markets. There has been significant growth in premiums over the 1997 – 2001 period (+11.8% p.a.). Although gross premium income fell by 17.4% in 2001, net claims costs have increased by 14.2% p.a. These trends have yielded underwriting profits in every year from 1997 – 2001.





*factfile five**Topical Issues in Insurance*

5

The vital role played by the insurance system in Irish society is a fact of life. Its continued operation is primarily the responsibility of government, IIF member companies and the legal profession while international factors also have an influence on its operation. The main issues of interest to our member companies, the insurance buying public, the regulator, policymakers and the media over the last 12 months included:

- ◆ Current investment environment
- ◆ Personal Retirement Savings Account
- ◆ Liability and motor insurance
- ◆ Personal Injuries Assessment Board
- ◆ Insurance Fraud

**CURRENT INVESTMENT ENVIRONMENT**

We are now well into the third year of a significant "bear" market. The bursting of the "TMT" (Technology, Media and Telecoms) bubble started the process. September 11th, Enron, weakening economies and, more recently, the threat of war in Iraq, have continued the downward spiral. Almost all equity markets worldwide have been affected and, compared to high points in 1999, stocks and shares are now off by an average of 30%. This provides a challenging background for the Irish insurance industry.

Unit-linked investment policies, where policy values reflect directly the value of the underlying investments, are most visibly affected; values of these policies have fallen sharply in line with the markets they are invested in. With Profit policies, although protected to some extent by their "free assets" and their smoothing of returns through successive annual bonus declarations, are also affected; many funds have applied "Market Value Adjusters" to ensure that values for those who wish to cancel policies early reflect the impact poor stockmarkets have had on underlying assets.

While equity markets have performed poorly other investment markets have fared much better. Fixed interest stocks, mainly government and corporate debt, have performed very well. Long-term interest rates have fallen steadily to levels not seen for nearly four decades. Property, although not showing the stellar performance of recent years, has held up well and has proven to be a useful alternative to equities.

Most policies are actually backed by a combination of the various asset classes. Performance figures therefore represent a much more positive position than the "headline" figures emerging from current equity markets. Maturities of recent Unit-Linked and With Profit products both show that even these headline figures need to be seen in a long-term perspective; to some extent recent falls are only unwinding strong gains made in the late '90s and the overall long-term performance of these products has been strongly positive.

The current excitement over falling stockmarkets is however masking a more important underlying shift in the investment world. Returns going forward are now increasingly being judged against an expectation of stable, inflation-free growth. While this is positive from a "real" perspective i.e., adjusted for inflation, nominal rates are now expected to be lower in the future than we have been used to in the past. This will result in lower nominal payouts in the future, even if the real value of these figures is actually maintained.

This has a number of effects. Anyone saving for the future now has to ensure that lower nominal growth rates are factored into these plans. The insurance industry's regulator (the Department of Enterprise, Trade & Employment) has allowed for this by reducing the maximum growth rate to be used in illustrations by 2%, from 8% to 6%, as from 30th June 2002. This will affect policies used to fund long-term protection plans, repay mortgages or provide pensions.



Those making prudent provision for a pension at retirement must also take into account well-documented trends towards increasing longevity. Although we can all look forward to a longer period in retirement this does unfortunately mean that more money will be required to fund pensions now.

While all policyholders should be regularly reviewing their portfolios with the help of qualified advisers, current conditions emphasise the need to ensure that these reviews are not "long-fingered". Plans made several years ago now need to be critically re-assessed in the light of current conditions. In particular, realistic provision must be made for any future pension plans.

Lower current and expected future returns from investments also impact on the pricing of traditional, "protection" products – both life and non-life. It is very apparent that, whereas non-life insurers were in the past able to absorb quite significant underwriting losses because of the significant contribution to their income from investment returns, falling investment income has combined with claims cost inflation to put upward pressure on premiums in the last couple of years. As the new low-return environment looks set to continue, premium rating in motor, liability and property insurance will be influenced more than ever by underlying claims costs, as insurers cannot rely on buoyant investment income to make up underwriting deficits.

### PERSONAL RETIREMENT SAVINGS ACCOUNTS

The long-awaited Personal Retirement Savings Account (PRSA), originally recommended by the National Pensions Policy Initiative Report in 1998, should be coming on stream in early 2003.

Following the enactment of the Pensions (Amendment) Act by the Oireachtas in April 2002, the Department of Social and Family Affairs and the Pensions Board have been busy drafting a large body of regulations to implement the Act's provisions in relation to PRSAs and other pensions reforms.

In August, Minister Mary Coughlan announced that the commencement date for intending PRSA providers to apply for authorisation to the Pensions Board would be 11th November 2002. Under the legislation, the Board has three months to decide on applications, so PRSAs should become

available to the public some time in February 2003.

Insurers and other intending PRSA providers have been working hard to design new products and prepare for the application process. A number of points of detail in relation to the regulations and procedures have not yet been finalised and will have to be taken into account before aspiring PRSA providers can put the finishing touches to their applications.

It is important to ensure that there are no further delays in the application and product launch process, that the regulations and rules of procedure are finalised and published as soon as possible, and that intending PRSA providers have all the information they need to submit applications on or soon after 11th November.

It is also important that actuarial guidance on a number of issues to do with PRSAs, including in particular the definition and management of investment strategies, is completed and published as soon as possible.

There is considerable optimism in the life assurance market that the introduction of PRSAs will significantly increase occupational pensions coverage. However this is tempered by the realisation that some of the restrictions, particularly the cap on charges for standard PRSAs, could mean that marketing campaigns and the provision of personalised advice to customers would be restricted. This is unfortunate, particularly at a time when concerns are being expressed about the increasing complexity of our pensions regime overall. However, provided there is a level playing field for the design, marketing and supervision of products, and reasonable flexibility in the regulations finally adopted, there is every reason to suppose that PRSAs will constitute an important new market for insurers and other financial services institutions, and will help to plug a serious and significant gap in our society's provision for financial security in retirement.

### WHERE DOES MY LIABILITY PREMIUM GO?

Liability insurance is extremely expensive in Ireland compared to other EU countries. There have been significant increases in most commercial policyholders' liability insurance premiums over the last 12-18 months. At the same time, paradoxically, there has been a reduction of over 20% in underwriting capacity, with a number of insurers



no longer offering liability insurance or severely restricting their intake of new business. IIF is in discussion with several business and policyholder organisations to try to address the underlying reasons for high (and rising) liability insurance costs in Ireland. A number of initiatives on claims handling and settlement procedures, anti-fraud measures and risk improvement are under active consideration and should help to improve the situation in the future. In addition, many of the recommendations of the Motor Insurance Advisory Board relating to the system for deciding compensation in personal injury cases should - *if* implemented - have a beneficial effect on employer's and public liability insurance costs, as well as on motor insurance.

It may also be of interest to policyholders, insurers and brokers to analyse exactly what costs a typical liability premium has to fund, and what other income an insurer's reserves and capital can generate. This exercise may shed some light on:

- ◆ where action to control and reduce liability premiums needs to be taken;
- ◆ why so few insurers are actively seeking liability insurance business at present; and
- ◆ why the insurers who are still in the market are increasing premiums so significantly.

The table below is based on returns from IIF liability insurance members for 2001, as applied to a typical small liability insurance risk costing €5,000 to insure.

The insurer's income consists of:

- ◆ the premium itself (€5,000);
- ◆ investment income generated on technical reserves held against claims. Reserves held are typically about 4 times net premium income. Income is estimated at 4% per annum – a rate of return which has dropped significantly in recent years - yielding €788 in investment income; and
- ◆ investment income on the underlying capital used to generate underwriting capacity (at a slightly higher 5% based on a somewhat more adventurous investment strategy). Typically, the shareholder capital used to guarantee solvency is about 40% of gross premiums (i.e., €2,000 in this case), giving additional investment income of €100.

Therefore, total income generated for the insurer is €5,888.

As against this, total costs based on our members' 2001 experience would be expected to be in the region of €6,700, with by far the largest single item of expenditure being claims (payments and increased reserves):

- ◆ net incurred claims costs in 2001 were over 120% of net premium or approximately €5,268 when related to our example; In addition, the insurer has to pay for:
- ◆ reinsurance protection (typically about 12.5% of gross premium - €625);
- ◆ internal management expenses (just under €500); and,
- ◆ commission to intermediaries (€315).

The net result is an operating loss of €817 on this case i.e., a loss of 16.3% on the premium of €5,000 paid by the policyholder. Relative to the capital invested by shareholders to underwrite this business, the return is in the region of - 40%.

Clearly, this is an unsustainable situation for the insurer, as for any commercial concern. Shareholders will not accept such massive negative returns on their capital investment, and this is why there has been a reduction in the number of insurers and a contraction of capital available to remaining underwriters in the market in the last 12-18 months.

To solve the imbalance, either income must rise (higher premiums and/or better investment returns) or costs must fall (lower claims costs, cheaper reinsurance, savings in internal management expenses and/or lower commissions).

Higher premiums ARE being charged in an attempt to rebalance the market, but there is very little prospect of investment returns increasing in current global investment markets. In any event, investment income is only about 15% of total income in this model.

Analysing the "costs" side of the equation, whilst there may be some scope for additional savings in expenses and commissions, these are relatively small elements of cost. The cost of reinsurance is not falling but rather increasing significantly worldwide at present. There is clearly more scope to make inroads into claims costs, which represent nearly 80% of total expenditure. Claims costs will come down if:

- ◆ claims frequency can be reduced, e.g., through better risk identification, control and management and more effective occupational and health policies in the workplace and public areas of policyholder's premises;
- ◆ average claims costs can be reduced through a fall in compensation levels (unlikely in the short-term) or reduction in the cost of delivering compensation (there is significant chance of improvements here as a result of Government commitments to implementation of the MIAB's

recommendations, more stringent measures to discourage fraudulent claims, review and ultimate streamlining of civil court procedures and rules).

Many of the factors affecting claims costs are outside insurers' direct control, but a combination of legislative and judicial reforms and improved safety in the workplace (based on more attention to safety policy by employers, increased enforcement of workplace safety rules by the Health and Safety Authority and better co-operation on both accident prevention and investigation and handling of claims between insurers and policyholders) can make substantial inroads.

In the final analysis, unless significant reductions can be realised in the cost of claims, the only alternative for insurers is to continue to increase premiums in order to remain solvent, a continuation of the current situation which is not in interests of policyholders or to the long-term benefit of the market or the viability of the Irish economy as a whole

### LIABILITY INSURANCE MODEL (2001 Data)

Policyholder Pays	5000			(Gross Premium)
<i>less</i> Cost of Reinsurance		625		
Premium retained by insurer	4375			(Net Premium)
<i>less</i> Cost of Claims of which - compensation (est. 66%) - legal etc. costs (est. 34%)		5268	3479 1789	(Net Incurred Claims)
Management Expenses		497		(11.4% of NP)
Commission		315		(7.2% of NP)
		----- 6080		
<i>plus</i> Investment Income - on technical reserves - on underwriting capital	788 100 ----- 888			(4% on [NP x 4.5]) (5% on [GP x 40%])
TOTAL INCOME	5888			
TOTAL EXPENDITURE		6705		
OPERATING RESULT			-817	= - 16.3% of Gross Premium = - 40.8% of Cap. Employed



## PERSONAL INJURIES ASSESSMENT BOARD

By drawing on their practical experience as participants in the civil litigation process, Irish Insurance Federation member companies have developed a best practice model for the operation of the proposed Personal Injuries Assessment Board (PIAB). The details of this model are contained in an IIF Consultation Paper which was submitted in July 2002 to the Tánaiste and Minister for Enterprise Trade & Employment, Ms Mary Harney TD, as part of the developing debate on the issue.

There are many inefficiencies in our current legal system which drive insurance costs upwards. The aim of the Consultation Paper is to propose ways of eliminating these inefficiencies, with particular reference to the contribution the PIAB can make to doing this and reducing legal costs. IIF believes that the establishment of the PIAB creates an opportunity to radically reform the Irish personal injuries litigation system without compromising claimants' rights.

The total cost of injury claims (compensation only) in 2001 was approximately €1.05 billion. An additional €440 million was spent on legal costs. Halving them would result in annual savings of €220 million.

IIF proposes that the PIAB should operate on the following basis:

- ◆ the PIAB will deal with all motor, employer's liability and public liability injury claims;
- ◆ the PIAB will issue contributory negligence rules to facilitate settlements without the need to submit all disputed cases to the Board;
- ◆ claimants' legal representation costs will be reimbursed on a fixed scale basis;
- ◆ there will be no requirement for insurers to have legal representation;
- ◆ the PIAB will replace the Circuit Court in personal injury cases and will have a jurisdiction level of €100,000;
- ◆ insurance companies will contribute to the running costs of the PIAB on a fee-per-case basis;

- ◆ both parties to a claim will agree that a suitable independent medical expert be instructed to assess the claimant;
- ◆ an "expert system" will be used to ensure consistency of awards. The "expert system" will be operated by the PIAB with regular reports to insurance companies and the legal profession to facilitate pre-PIAB settlements. It will be backed by a Book of Quantum;
- ◆ rehabilitation will be a factor in assessments e.g. if rehabilitation is offered to a claimant and refused the PIAB will take this into account in making an award. The PIAB will agree a Code of Practice with insurers and lawyers to govern the rehabilitation process.

The full text of this IIF Consultation Paper on the PIAB is available on [www.iif.ie](http://www.iif.ie).

## INSURANCE FRAUD

The many guises of insurance fraud have one common effect - they increase the cost of claims for insurance companies, which in turn increases premiums for policyholders. The good news is that the equation operates in reverse also: if we can stamp out fraud, or at least radically contain it, then insurance premiums will come down to reflect this reduction.

Because insurance fraud is, by its nature, a clandestine activity, there is no way of quantifying the actual extent of the problem in Ireland. However, a study by the Comité Européen des Assurances (CEA), the umbrella body of insurance trade associations in Europe, estimated that some 2% of total annual insurance premium is lost through insurance fraud each year. If that figure is applied to Ireland - and this is a conservative estimate - then fraudulent and spurious claims cost Irish insurers approximately €65m in 2001.

The commonest forms of insurance fraud involve:

- ◆ making false declarations or failing to disclose information in order to get insurance cover;
- ◆ taking out a number of policies to cover the same risk in order to make multiple claims;
- ◆ inflating the value of items or getting cover for items that do not exist;
- ◆ staging accidents in order to make a claim; and
- ◆ inflating a claim following a genuine accident.



Faced with such a variety of possibilities, insurers have not stood idly by. Insurers have put in place as many measures as is possible in order to combat fraud so as to protect policyholder's funds. One major step taken by the Irish insurance industry was the establishment in 1990 – and subsequent expansion - of Insurance Link, a claims-matching computer database that helps insurers identify possibly fraudulent claims. Details of claims are entered into the system and a programme is run to identify any 'matches' - for example if the claimant has made multiple claims or if there is any similarities between claims. While matches do not necessarily imply that fraud has taken place, they will alert the insurer to take a closer look at the claims involved. All claims involving personal injury in motor accidents, employer's and public liability insurance, as well as written-off vehicles, household, personal accident and travel insurance are run through the Insurance Link system.

The Irish Insurance Federation believes that more should be done to deter individuals from attempting insurance fraud. Our legislators have a prime responsibility to the wider community to be proactive on this issue. For example, the submission of false or exaggerated claims should be made a specific criminal offence, on the part not only of the claimant, but also anyone (such as medical or financial advisers or legal representatives) who colludes with the fraudster. Falsification of insurance claims forms should be equated with perjury, and made subject to the same penalties. In the case of exaggerated claims, the claim should be disallowed in its entirety if the court finds that it has been exaggerated. It is noteworthy that the recent Motor Insurance Advisory Board (MIAB) Report supports action on several of these proposals – hopefully, with the authority of MIAB behind them, legislators and civil servants will make sure that the law is strengthened sooner rather than later.

Quite apart from the €65m cost of conventional fraud, the law-abiding motorist bears the cost of another type of insurance fraud; namely, the cost of claims arising from accidents caused by uninsured or untraced motor vehicles. The Motor Insurers' Bureau of Ireland (MIBI) meets claims from the victims of uninsured and untraced "hit-and-run" drivers. As of the end of 2001 MIBI's outstanding liabilities were estimated at €350m - that's right, *three hundred and fifty million euros!*

And it is insured drivers who ultimately pay for the cost of MIBI claims because MIBI is funded entirely by the motor insurance industry and the cost of MIBI claims has to be factored into the pricing of motor insurance to the public at large.

Insurance fraud in all its many forms places an unacceptable burden on policyholders, and should not be tolerated. IIF has put in place an effective system to identify fraudulent claims. What is now needed is the introduction of stiffer penalties to provide a more serious deterrent to those who would attempt to defraud insurance companies. No group working alone can eliminate the cost of fraud to society: not insurers; not politicians; not the Garda Síochána nor indeed the law-abiding public. But by working together, through increased reporting of suspected frauds followed up by vigorous investigation, a streamlined criminal law procedure and realistic penalties as deterrents, considerable headway can be made to improve what is one of the single most expensive - and unnecessary - costs facing the Irish insurance industry today.



*factfile six**The Irish Insurance Federation*

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**ABOUT THE  
IRISH INSURANCE FEDERATION**

The Irish Insurance Federation was established in March 1986 and is the trade body representing insurance companies in Ireland. The objectives of the IIF are:

*"To influence the domestic and international regulatory, legal, political and social environments in which our members operate, in order to advance the interests of the insurance industry and its customers."*

**THE ORGANISATION OF THE IIF**

The IIF has a board on which both the life and non-life insurance sectors of the industry are represented. The board deals with matters of common interest to both sectors and the industry in general. However, to cater for their special interests, the life and non-life sectors and IFSC have separate management committees and a number of standing committees dealing with specific aspects of life and non-life insurance business.

The Chief Executive of the IIF, with responsibility for day to day management, is Michael Kemp.

**MEMBER COMPANIES**

The IIF unites 53 domestic member companies who between them control 98% of the total insurance business in Ireland. In addition, the IIF has 12 International Financial Services Centre members, writing foreign business. Membership of IIF is open to all authorised insurers operating as Irish-authorised companies, or as branch offices of overseas firms.

LIFE MEMBERS	IFSC MEMBERS	NON-LIFE MEMBERS
Acorn Life	AIG Life (Ireland)	AIG Europe (Ireland)
Anglo Irish Assurance	Area Life	Allianz
Ark Life	BFC Insurance	AXA Ireland
Bank of Ireland Life	Eagle Star European Life Assurance Company	BUPA Ireland
Caledonian Life	Hansard Europe	Combined Insurance
Canada Life	HSBC Life	DAS Legal Expenses Insurance
Combined Life	Irish Life International	DeMontfort Insurance
Eagle Star Life	Prudential Europe	Eagle Star Insurance
ECCU	Royal & Sun Alliance Euro Life	Ecclesiastical
Equitable Life	Scottish Mutual International	FBD
Friends First	SEB Trygg Life	GE Financial Insurance
GE Financial Insurance	St James's Place International	Generali
Hibernian Life		Hibernian Insurance
Irish Life		Irish Public Bodies Mutual
New Ireland		Pinnacle
Pinnacle		Quinn-Direct Insurance
Quinn Life-Direct		Royal & SunAlliance
Royal Life		St Paul Ireland
Royal Liver		Vhi Healthcare
Scottish Legal Life		
Scottish Provident		
Standard Life		

## WEBSITE

The IIF site [www.iif.ie](http://www.iif.ie) is an online information resource with six sections:

1. About the IIF
2. Consumer Information
3. Industry statistics
4. Media Section
5. Members' Section
6. News Update

Links from the site connect to a glossary of insurance terms, to IIF members, to Government departments and agencies and to insurance and other associations.



## CODES OF CONDUCT

The IIF's life and non-life members abide by a series of self regulatory Codes of Practice. These Codes provide a thorough framework of guidelines and recommendations for insurers and provide essential protection for our customers. Full details of these codes can be found on [www.iif.ie](http://www.iif.ie)

### LIFE CODES

#### *Code of Practice on Life Assurance*

This Code applies to life policies taken out in a private capacity by individuals and contains rules on the duty of disclosure, the content of proposal forms and other documentation and claims payment procedures.

#### *Code of Practice on Life Assurance Selling*

This Code sets out guidelines on general sales principles for salespeople. The Code stresses that the overriding obligation of a salesperson at all times is to conduct business with the utmost good faith and integrity and includes recommendations on how to make contact with prospective policyholders and how to explain details of individual contracts.

#### *Code of Practice on Advertising and Sales Material*

This Code is intended as a guide to the standards, which should be observed when advertising life assurance products, and in the production of sales material. Its purpose is to ensure that all advertising and sales material is accurate and does not contain, by omission or otherwise, any statement that could mislead.

#### *Codes of Practice on Life Insurance Medical Reports*

This Code includes guidelines for companies on the requesting of, payment for and confidentiality of medical reports and HIV blood testing.

#### *Code of Practice on HIV Testing Limits*

Because of the risk of the spread of AIDS, the life assurance industry introduced measures designed to protect the funds held for existing and future policyholders. Under this Code, IIF members agree to send individuals proposing for life cover for a routine HIV antibody test where the sum assured under the proposed policy is greater than or equal to €1,000,000 (from 1st of January 2002). Members are free to request tests at sums lower than the above at their own discretion.

#### *Code of Practice on Factfinds*

This Code states that a life assurance company salesperson must carry out a "factfind" to obtain an overall picture of the client's financial circumstances and needs as part of the sales process.

#### *Code of Practice on Genetic Testing*

This Code confirms that insurers will not send applicants for insurance for genetic tests and restricts the circumstances in which insurers will seek the results of tests undertaken by the applicant prior to applying for cover.

#### *IIF Competency Scheme*

This requires all persons involved in the sale of life assurance to have passed an industry competency test.

#### *Code of Practice for handling Customer Complaints*

This Code lays down minimum standards for dealing with customer complaints.





## NON-LIFE CODE

The non-life members of the IIF are also subject to self-regulation through a Code of Practice drawn up by the Federation. The Code contains guidelines on the following:

- *The duty of disclosure for private consumers;*
- *The content of proposal forms;*
- *The use of clear language in proposal forms and policy documents;*
- *Procedures on payments of claims;*
- *The content of renewal notices.*

This Code provides clear and concise guidelines for all those involved in the design and sale of non-life insurance products.

## IIF CUSTOMER SERVICE

### *Customer Information Leaflets*

A variety of information leaflets are available for insurance customers. These can be downloaded from [www.iif.ie](http://www.iif.ie) and topics covered include:

- *Safety at work*
- *Making a claim*
- *Making your home more secure*
- *Insurance for young drivers*
- *Insurance and the euro*
- *Genetic testing*
- *Permanent health and serious health insurance*

### *Query and Complaint Procedures*

In addition to the above Codes of Practice and Information Leaflets, the industry has established a number of practices and structures to ensure the maximum protection for our insurance customers.

### *Insurance Information Service*

IIF operates a free information service which answers queries on all types of insurance and also investigates complaints made against insurers. Staff liaise between policyholders and companies in areas of dispute, provide assistance to people having difficulty in obtaining quotes and advise the general public on all areas related to the insurance field.

This service helps keep the industry in touch with the views, opinions and changing needs of the public while also keeping the public informed about the operations of the industry. In 2001, this service dealt with 13,750 query and complaints.

- *IIF's Information Service can be contacted at (01) 6761914 or [fed@iif.ie](mailto:fed@iif.ie).*

## THE INSURANCE OMBUDSMAN OF IRELAND

The Insurance Ombudsman scheme was established in September 1992. The Ombudsman provides advice to policyholders about claims, mediates between the policyholder and the insurer and has the power to make a judgement in relation to claims. Insurance companies that are members of the Insurance Ombudsman Scheme have agreed to be bound by any judgement made by the Ombudsman.

Policyholders can refer their cases to the Ombudsman after the dispute or claim has gone through the insurance company's complaints procedures and the company has confirmed in writing that no settlement has been reached. The complaint must be referred to the Ombudsman within six months of receiving the written confirmation. A policyholder cannot refer a case if court proceedings have already been initiated or if the case has been referred to arbitration or to the Minister for Enterprise, Trade and Employment under Section 72 of the Insurance Act, 1936.

The Ombudsman Scheme cannot deal with disputes about the technical calculations of life companies. Nor can it arbitrate in disputes between the complainant and any other person other than the complainant's insurance company. The Ombudsman also cannot deal with disputes relating to acts or omissions of any insurance intermediary other than those for which the member insurance company bears full legal responsibility. Finally, it cannot deal with a matter that has been, or should be more appropriately dealt with, by a court of law, or with a matter barred by law because the time for bringing legal action has expired.

- *The Insurance Ombudsman can be contacted at [www.ombudsman-insurance.ie](http://www.ombudsman-insurance.ie) or 32 Upper Merrion Street, Dublin 2, telephone (01) 6620899 and fax (01) 6620890.*

# Appendix I

## IIF Life Members' Gross Premium Income 2001

### IIF Life Members' Gross Premium Income 2001 €'000

Company	Life Business			Pensions Business		Total
	Annual Premiums	Single Premiums	Industrial Branch	Annual Premiums	Single Premiums	
<i>Acorn Life</i>	31824	22241	0	9300	3266	66631
<i>Anglo Irish Assurance</i>	0	38264	0	2115	23205	63584
<i>Ark Life</i>	209626	503515	0	78739	18626	810506
<i>Caledonian</i>	27041	41469	0	11324	2803	82637
<i>Canada Life</i>	160564	221461	0	108340	104678	595043
<i>Eagle Star</i>	97746	59708	0	115975	125894	399323
<i>Equitable Life</i>	1300	359	0	4130	3675	9464
<i>Friends First Life</i>	76412	256993	0	89039	112241	534685
<i>GE Financial</i>	12346	0	0	0	0	12346
<i>Hibernian Life</i>	165975	526497	0	168808	227122	1088402
<i>Irish Life</i>	311327	581673	20937	350156	199362	1463455
<i>Lifetime</i>	184156	344441	0	70189	34729	633515
<i>New Ireland</i>	106500	188700	5300	121700	98900	521100
<i>Quinn Life - Direct</i>	1746	1657	0	321	722	4446
<i>Royal Liver</i>	53293	66223	55549	15793	2942	193800
<i>Scottish Legal</i>	2755	7785	2906	137	14	13597
<i>Scottish Provident</i>	40737	29806	0	51270	25441	147254
<i>Standard Life</i>	85280	185127	0	102199	155333	527939
<b>Total</b>	<b>1568628</b>	<b>3075919</b>	<b>84692</b>	<b>1299535</b>	<b>1138953</b>	<b>7167727</b>



# Appendix II

## IIF Non-life Members' Gross Written Premium 2001

### IIF Non-life Members' Gross Written Premium 2001 €'000

Company	Motor	Property	Liability	PA/ Travel	Other Classes	Total
<i>AIG Europe</i>	40204	36397	25674	14112	40765	157152
<i>Allianz</i>	186584	150800	101038	6400	16001	460823
<i>AXA</i>	393931	65291	3086	3574	141	466023
<i>Combined</i>	0	0	0	0	47474	47474
<i>DAS</i>	0	0	0	0	2789	2789
<i>DeMontfort</i>	0	0	0	-3	2301	2298
<i>Eagle Star</i>	151387	77561	49017	58	3059	281082
<i>Ecclesiastical</i>	3	5439	1333	39	0	6814
<i>FBD</i>	136762	60337	43701	3350	3808	247958
<i>GE Financial</i>	0	0	0	0	41885	41885
<i>Generali</i>	105	5782	2490	2425	58	10860
<i>Hibernian</i>	452475	204904	104670	6419	0	768468
<i>Irish Public Bodies</i>	6509	12859	54174	0	230	73772
<i>Pinnacle</i>	0	0	0	0	315	315
<i>Quinn-Direct</i>	147225	2126	10068	0	0	159419
<i>Royal &amp; SunAlliance</i>	124409	178171	51105	19157	18705	391547
<i>St Paul</i>	21500	9026	62689	0	0	93215
<i>Zurich</i>	8260	5910	2954	0	66	17190
<b>Total</b>	<b>1669354</b>	<b>814603</b>	<b>511999</b>	<b>55531</b>	<b>177597</b>	<b>3229084</b>

# Appendix III

## Glossary of Insurance Terms

### LIFE ASSURANCE

#### *Term assurance*

This is the simplest form of life assurance, and is a pure protection product. A term assurance policy is taken out for a set period of time (e.g. 10, 20 or 25 years) and guarantees to pay out a specified sum if you die during that period of time. If you survive the term of the policy, no payment is made.

#### *Whole of Life Assurance*

As with the term assurance policy, whole of life assurance is a protection product which promises to pay out an agreed sum on the death of the life assured. However, in this case, there is no time limit on the term of the policy. Once the policy is taken out, the policy can continue uninterrupted for the rest of the policyholder's life, as long as the premiums continue to be paid.

#### *Critical Illness*

Critical illness insurance policies are a more recent market innovation and have proven very popular. Under the policy, the policyholder will be paid an agreed sum if he/she contracts one of a number of specified serious illnesses. Typical illnesses covered include cancer, strokes, heart attacks, multiple sclerosis and kidney failure.

#### *Permanent Health Insurance*

Permanent Health Insurance is a protection policy that provides an income if the policyholder is unable to work because of sickness or disability. Each PHI policy includes a 'deferred period'. The individual must be off work because of illness for longer than the deferred period before an income is payable under the policy. The deferred period is usually 13, 26 or 52 weeks. PHI is available on an individual or group basis (i.e. where an employer may establish a scheme for employees).

#### *Endowment Insurance*

Endowment policies usually combine an element of life assurance protection with a larger element of savings. The idea is to invest an amount of money on a regular basis into an endowment policy so that at the end of a specified term, the policyholder will

receive back an amount which will reflect a good return on the premiums paid.

#### *Unit Linked*

The premiums under your savings policy are invested in units of one of the investment funds of your chosen life assurance company and the growth in the value of the units purchased determines how much your policy is worth at any point in time.

#### *With Profit*

Each year, depending on underlying investment conditions, bonuses are added to your policy. On the maturity date of the policy or earlier death of the policyholder, the sum assured plus all bonuses added will be paid. The intention is to smooth out the effect of year-to-year investment fluctuations.

#### *Maturity Value*

This is the final value of a savings policy if it is allowed to run for the full term specified in the contract.

#### *Surrender Value*

This is the value of a savings policy if it is cashed in before it has reached maturity. Surrendering of policies is discouraged by life assurance companies, because in the early years the surrender value may be less than the premiums paid. Savings policies taken out with life companies should be considered as long term savings vehicles.

#### *Pensions / Annuities*

For many people, the income they receive from the State on retirement will not be sufficient to support them. For this reason, increasing numbers of people have chosen to provide for their retirements by taking out pensions with a life assurance company. This is usually done by way of a contract where, in return for a lump sum or a series of regular payments to the life company, the policyholder will receive a regular income at retirement. This regular income during retirement is called an "annuity".



### *Personal Retirement Savings Accounts*

The National Pension Policy Initiative (NPPI) Report of the Pensions Board on "Securing Retirement Income" was published in 1998 and made a number of recommendations in relation to pensions. One of these recommendations was the introduction of a new, easy access, low cost, flexible personal pension, called a Personal Retirement Savings Account, to encourage individuals who have not already done so to make provision for retirement. PRSAs are expected to become available in early 2003.

### *Approved Retirement Fund*

An Approved Retirement Fund (ARF) is a type of investment plan available at retirement to the self-employed, directors of family firms and certain other individuals, as an alternative (or in addition) to an annuity (see above). An ARF is bought with the proceeds of the individual's pension plan and can be invested in a range of assets from a variety of financial services providers. The ARF can be left to grow or part of it can be cashed in from time to time to provide an income.

### *Cooling-off notice/period*

When you take out a savings policy with a life assurance company, you are given a period of grace (normally 15 days) after the policy comes into force during which you can change your mind and cancel the contract without incurring a penalty. This is known as the "cooling-off period" and is described fully in a "cooling-off notice" which is sent to you by the life assurance company.

### *Illustrations*

With savings/investment policies, you may be provided with an illustration showing future values of your policy. These illustrations are made using standard investment rates of growth and should not be taken as a guarantee, but merely as an example of what the investment would achieve under certain conditions.

### *Intermediary*

An intermediary is someone who advises potential clients about their insurance needs, helps them to select the most appropriate policy and provides an ongoing service in all subsequent matters relating to such policy.

### *Gross roll-up*

A term which describes life assurance investment funds which are not subject to tax as they accumulate. Traditionally this has applied only to pensions and, more recently, to insurers selling overseas from the International Financial Services Centre. Other life assurance funds paid tax each year but the policyholder had no further tax to pay when he/she received any payment from the policy. Since 1st January 2001, all new life assurance policies are on a gross roll-up basis. No tax is paid by the fund but an exit tax of, currently, 23% is deducted by the insurance company from amounts paid to policyholders. Certain payments on death and disability or to non-residents are exempt from the exit tax.

## NON-LIFE INSURANCE

### *Reinsurance*

Insurance protection bought by an insurer to limit its own exposure. The availability of reinsurance protection allows an insurer to expand its own capacity to take on risk. Without a reinsurance facility, each insurer would be able to accept less business.

### *Premium - Written and Earned*

Written premium is the actual premium paid by a policyholder for an insurance policy. Earned premium is the premium allocated to the actual exposure to risk arising during a particular period. For example, if an insurance company issues a 12-month policy for a premium of €500 on 1st January 2002, the written premium for 2002 will be €500, and so will the earned premium. But if the same policy is issued on 1st July 2002, the written premium will be €500, but the earned premium will only be €250; the other half of the premium will be allocated to an unearned premium reserve which will be credited to 2003 earned premium. This is because half of the premium written will be in respect of the exposure of loss during the first half of 2003.



### *Premium - Gross and Net*

Gross premium is the total amount of premium income of an insurer. Net premium is the premium retained by the insurer after it pays for its reinsurance protection. Similarly, gross claims costs are the total claims costs for which the insurer is liable under the policies it issues. Net claims costs take account of reinsurance claims recoveries due to the insurer from its reinsurers.

### *Cost of Claims Incurred*

The total amount paid out in claims during a given period, plus the movement in technical reserves during that period. For example, if an insurer pays out €10m in claims during 2002, and technical reserves stood at €50m at the beginning of the year and increase to €55m by the end of the year, then the insurer's claims incurred cost for 2002 would be €15m (€10m + €(55m-50m)).

### *Management Expenses*

The internal expenses of an insurer incurred in acquiring and serving insurance business.

### *Commission*

The money paid out to an insurance intermediary in recognition of the business written by the insurer through the agency of the intermediary.

### *Technical Reserves*

The amounts insurers hold against future payment of claims. There is Government supervisory control of the proper estimation of outstanding claims and the nature and spread of assets which can be used to cover technical reserves.

### *Underwriting Result*

A non-life insurer's underwriting result is the profit or loss left after the cost of incurred claims, management expenses, commissions and other costs are deducted from earned premium income.

### *Investment Income*

Income received on investments PLUS gains/losses realised on disposal of investments PLUS unrealised gains/losses over the period in question on investments held at the end of the period.

### *Operating Result*

A non-life insurer's profit or loss after its investment income has been added to its underwriting result.

### *Types of Motor Insurance Cover*

- ◆ *Third Party*: provides cover against the policyholder's legal liability to meet compensation claims from passengers, occupants of other vehicles, or other road users who are injured or whose property is damaged as a result of negligence by the policyholder or other insured user of the vehicle;
- ◆ *Third Party, Fire and Theft (TPF&T)*: provides the same cover as Third Party PLUS cover against theft of the insured vehicle and fire and theft damage to the insured vehicle;
- ◆ *Comprehensive*: full Third Party, Fire and Theft cover PLUS cover for accidental damage to the insured vehicle. It does NOT provide cover for injuries sustained in an accident by the policyholder or other insured driver.



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