

IRISH INSURANCE FEDERATION

factfile

October 2004

Irish Insurance Federation (IIF),
Insurance House,
39 Molesworth Street,
Dublin 2.

t + 353 (1) 676 18 20

e fed@iif.ie

w www.iif.ie

t 1890 333 333 – *Insurance Confidential* LoCall (to report suspected fraud)

t 01 676 19 14 – Insurance Information Service (consumer information)

Disclaimer

The data published in this report has been compiled from information supplied by IIF member companies unless otherwise indicated. While every effort has been made to ensure the accuracy of the collated information, IIF does not accept responsibility for errors or omissions.

Material from Factfile may be reproduced provided the source is fully acknowledged.

Published: October 2004

Who are we?

The Irish Insurance Federation (IIF) is the representative body of the Irish insurance industry with 54 life and non-life members, which employ over 15,000 people.

What do we do?

The IIF seeks to influence the domestic and international regulatory, legal, political and social environments in which its members operate, in order to advance the interests of the insurance industry and its customers.

about factfile

This Factfile is part of a series of Factfiles published by the IIF annually, which provide key facts and figures on the insurance industry in Ireland.

This is the twelfth year of publication and the Factfile is now a well-established primary source of information on the domestic and international business of insurers based in Ireland.

This Factfile focuses on statistics for 2003 and for the five-year period 1999 – 2003. The data is derived from data collected from members of the IIF unless otherwise indicated.

Foreword



As president of the IIF, I am pleased to introduce this year's Factfile. This is the twelfth year of publication and the Factfile is now a well-established source of statistics and commentary on the Irish insurance market.

This year's Factfile contains three key sections. The first section sets the Irish Insurance market in both a recent historical context as well as in an international context.

The second section is devoted to the non-life insurance market. There were a number of changes in the market during last year. The positive results for 2003 mark the continuation of a welcome change in trends for the insurance industry and underline the cyclical nature of the insurance business which has experienced some loss-making years recently.

The improved results in 2003 are good news for both customers and shareholders alike. Both personal and business customers have benefited from significant reduction in premiums within the past year. For instance, a survey of motoring costs by the AA published in June showed a 22 per cent in motor premiums over the previous 12 months. Business customers are typically experiencing insurance premium reductions of a similar order.

We hope that further rate reductions are likely to follow. This is in light of the implementation of a number of changes as part of the Government's insurance reform programme fully supported by the insurance industry, together with a range of initiatives that the industry itself has taken in areas such as tackling fraud and promoting road and workplace safety.

Section three deals with the life and pensions market. New annual/regular premium business was down 28 per cent while new single premium business grew by 4 per cent. This may reflect the relatively flat state of the economy in 2003 together with the impact of the introduction of SSIA's during 2001 and 2002 which had the effect of absorbing a significant amount of the surplus cash available for investment.

There has been a significant recovery in life policyholder funds in 2003 with year-end investments valued at €44.575 bn after a period of stagnation between 2000 and 2002.

One of the main developments was the introduction of Personal Retirement Saving Accounts (PRSAs) by the Government as a new, flexible approach to pensions in order to improve levels of pension coverage. Over 18,000 PRSAs were sold by IIF life assurance company members in the first year of operation of this new product, with total premium worth €68.6m. However, improving pension coverage in Ireland remains a major challenge with a current coverage rate of just 52.4 per cent among people aged between 20 and 69 falling considerably short of the Government's target of 70 per cent coverage by 2006. IIF will be making specific proposals in our pre-budget submission 2005, as to how this issue could be addressed.

Paul Donaldson
President

contents

4	Foreword
6	Executive Summary
9	The Irish Insurance Market – A Comparative Overview
17	Non-Life Insurance Market 1999 – 2003
29	Appendix I: IIF Non-Life Members' Gross Written Premium 2003
31	Life Assurance & Pensions Market 1999 – 2003
42	Appendix II: IIF Life Members' Gross Premium Income 2003

Executive Summary

The Irish Market

- Total gross premium income for 2003 grew by 6 per cent from €11208.2m in 2002 to €11883.5m.
- Although gross non-life premium income grew by 7 per cent in 2003, this increase was smaller than the increases in previous years. This was largely due to reductions in motor and commercial premium rates during the year.
- This been a significant recovery in life policyholder funds for 2003 with year-end investments valued at €44.575bn. This recovery follows a period of stagnation between 2000 and 2002. This improvement may be attributable to the upturn in the stock market and a more favourable investment climate.
- Total gross premiums as a percentage of GDP were 8.8 per cent for Ireland in 2003. This compares with 8.6 per cent for the EU; 8.9 per cent for the OECD; 8.5 per cent for America and 4 per cent for Africa.
- Ireland's premium per capita of \$3,455 is higher than some other European countries such as Germany, Spain and Sweden but is lower than the United Kingdom, the United States, Switzerland and Japan. When making comparisons it is worth noting that in other European states e.g. France, Germany and Sweden, which have higher taxation rates and developed social insurance systems, a greater proportion of the costs associated with accidents are catered for through the social insurance system. This has an impact on the level of compensation awarded for personal injury claims paid by insurance companies, and ultimately on premium rates.
- The operating ratio for the non-life market improved significantly from 100.5 per cent in 2002 to 87.6 per cent in 2003. In monetary terms this means that the non-life market made 12.4 cent on underwriting insurance for every €1 of premium earned in 2003. The operating ratio for liability business was still, however, unacceptably high at 102 per cent.
- Over the five year period from 1999-2003, the underwriting result for the non-life market has improved significantly from a loss of €255m in 1999 to a profit of €397m in 2003. The market made an underwriting loss in four out of the last five years. The cumulative underwriting result for 1999 – 2003 was a loss of €744m. The cumulative operating result over the same five-year period was a profit of €764m.
- Gross written premium for motor insurance was just under €1895m in 2003, which was virtually unchanged from 2002 (+ 0.2 per cent). Net incurred claims costs decreased by 7.5 per cent from €1382.2m in 2002 to €1278.5m in 2003. A key factor was the reduction in the frequency of claims.
- Net Earned Premium (NEP) in the private motor market has increased by 11 per cent p.a. over the five-year period 1999 to 2003, from €778m in 1999 to €1187m in 2003. Net earned premium increased as the number of vehicles grew significantly due to the economic boom which dominated much of this period. In addition, a stubbornly high claims ratio over this period inevitably led to higher premiums. In 2003, claims costs began to fall and this in turn meant that premiums began to reduce – a trend, which continued into 2004.

Non-Life Insurance

- The IIF's 20 non-life members write in excess of 95 per cent of domestic non-life premiums. In 2003, IIF members wrote gross premiums of €4239m and motor remained by far the largest class of insurance at €1895m (44.7% of non-life business).
- The net underwriting result of the non-life market in 2003 was a profit of €397.4m compared to a loss of €45m in 2002. The combined operating profit of the 20 companies in the non-life market was €746.9m for 2003.
- The net underwriting result for private motor insurance was a cumulative loss of €316m (over 6 per cent of NEP) between 1999 and 2003. 2003 was the first year in the previous five that the market achieved a positive underwriting result.
- Household insurance business registered a significant turnaround in its underwriting result, from a loss of €44m in 2002 to a profit of €85m in 2003. This is largely attributable to the benign weather conditions during last year. Over the five years 1999-2003, the household insurance account produced a small underwriting loss of €24m (-1.5 per cent of NEP).

- Employer's liability insurance has continued to prove to be a difficult area for insurers with a cumulative net underwriting loss of €251m (nearly 23 per cent of NEP) between 1999 and 2003. The results for 2003 are an improvement although insurers in this class of business made a loss of €12m.
- As with employer's liability, public liability insurance also gives cause for concern. There have been consistent underwriting losses, reaching a low of €102m in 2001 and then improving gradually to a loss of €47m in the year 2002 and to a loss of €6m in 2003. Over the five years 1999-2003, net underwriting losses aggregate to €279m or 23.7 per cent of NEP.
- The value of equity investments increased 22.7 per cent to €25.9bn. Equities now represent 58.1 per cent of total policyholder's funds, compared to 55.5 per cent at the end of 2002.
- Over the five years 1999 to 2003, annual premium business increased from €2082m to €3838m, an average rise of 16.5 per cent per annum. Total premium income increased over the same period from €5972m to €7644m (up 6.4 per cent p.a.).
- Single premium business rose from €3898m in 1999 to €5222m in 2000, then fell from 2001 onwards before making a recovery in 2003 to €3806m. Over the five years there was an average decrease of 0.6 per cent p.a.

Life and Pensions

- In 2003, the IIF's domestic life assurance members had aggregate premium income of €7644.4m, which represents an increase of 5.4 per cent on the previous year (€7253.3m).
- New annual premium (AP) business for life assurance members in 2003 was €712.5m (down 28 per cent). New single premium (SP) business grew to €3806m (+ 4 per cent). Overall, the new business Annual Premium Equivalent (AP business + 10% of SP business) was €1093.1m (down 20 per cent).
- Over 18,000 PRSAs were sold by IIF life assurance company members in the first year of operation of this new product, with total premium worth €68.6m.
- €3683m in benefits and claims was paid by domestic life assurance companies during 2003. These payments and benefits cover a wide range of products which take a number of forms; for example, a once off lump sum payment to a policyholder in the event of serious illness; or in the case of pensions, the payment of a regular income to a policyholder.
- The total value of life assurance protection in force at the end of 2003 was estimated at €241bn, compared to €205bn in 2002.
- In 2003, IIF's life assurance members wrote foreign annual premium business of €41.9m. This represents a decrease of 38 per cent on 2002. This may reflect a move by cross-border product providers away from regular/annual premium products and towards single premium products. New single premium business increased by 48 per cent, to €2265.4m. It grew significantly because of the upward trend in stock markets, which encouraged lump sum investors.
- Overall, new foreign business written by IIF life members increased by 2.7 per cent p.a. on an annual premium equivalent (A.P.E.) basis over the period 1999 – 2003.



the irish insurance market a comparative overview

1

The Irish Insurance Market – A Comparative Overview

This section provides an overview of trends in the Irish insurance market both in a recent historical context (past five years) as well as in an international context.

Irish Insurance Market – Past and Present

Gross Premium Income 2003

Year	Life	Non-Life	Total
Gross Premium Income (€m)	7644.4	4239.1	11883.5
Premium Income: GDP (%)	5.67	3.15	8.82
Premiums per capita (€m)	1921	1065	2986
Investments* (€m)	44575	9626	54201

* Policyholders' funds (life assurance) and Technical Reserves (non-life) at 31st December 2003.

Gross insurance premium income for 2003 was €11883.5m. The significance of the insurance market to the Irish economy is highlighted by the fact that premium income as a percentage of GDP was almost 9 per cent.

Gross Premium Income 1999 – 2003 (€m)

Year	Life	Non-Life	Total
1999	5973.1	2271.3	8244.3
2000	7602.7	2693.7	10296.4
2001	7167.7	3229.0	10396.7
2002	7253.3	3954.9	11208.2
2003	7644.4	4239.1	11883.5

Total gross premium income for 2003 grew by 6 per cent from €11208.2m in 2002 to €11883.5m.

Although non-life gross written premium grew by 7 per cent in 2003, this increase was smaller than the increases in previous years. This was largely due to reductions in motor and commercial premium rates during the year.

After a fall in gross premium income in 2001 and low growth in 2002, total life income grew in 2003 by 5 per cent. This growth is in the context of a recovery in the economy and improved investor sentiment.

Gross Premium Income and Gross Domestic Product 1999 – 2003 (€m)

Year	Gross Premium Income	GDP	Premium Income: GDP%
1999	8244.3	89457	9.2
2000	10296.4	103065	10.0
2001	10396.7	115433	9.0
2002	11208.2	127992	8.8
2003	11883.5	134786	8.8

Premium income as a percentage of GDP remained constant between 2002 and 2003. There have only been marginal changes over the past five years with premium income as a percentage of GDP rising to 10 per cent in 2000 but falling slightly in subsequent years.

Life & Non-Life Premiums as a Percentage of GDP for Ireland 1999 – 2003

Year	Life Premium as % of GDP	Non-Life Premium as % of GDP	Total
1999	6.7	2.5	9.2
2000	7.4	2.6	10.0
2001	6.2	2.8	9.0
2002	5.7	3.1	8.8
2003	5.7	3.1	8.8

Life premiums as a percentage of GDP have recently remained static but over the five-year period from 1999 to 2003, they fell by one percentage point.

Similarly, non-life premiums as a percentage of GDP have remained constant between 2002 and 2003. Over the 1999-2003 period they have increased from 2.5 per cent to 3.1 per cent.

Year End Value of Investments (€bn)

	1999	2000	2001	2002	2003	% Change p.a.
Life	36.587	39.547	40.058	38.047	44.575	+5.1%
Non-life	5.622	6.598	7.354	8.597	9.626	+14.4%
Total	42.209	46.148	47.412	46.644	54.201	+6.5%

The above table illustrates that there has been a significant recovery in life policyholder funds for 2003 with year-end investments valued at €44.575bn. This recovery follows a period of stagnation between 2000 and 2002. This improvement may be attributable to the upturn in the stock market and a more favourable investment climate. Meanwhile, non-life technical reserves have increased by 14.4 per cent per annum over the period from 1999 – 2003.

Life Assurance Benefits and Claims Paid 1999 – 2003 (€m)

1999	€2463m
2000	€3253m
2001	€4139m
2002	€3731m
2003	€3683m

Almost €3.7bn was paid out by life assurance companies in benefits and claims in 2003 alone. These payments and benefits cover a wide range of areas. Examples include income and payouts on investment policies for policyholders; payment of death benefits which protect family income; payment of annuity income to pension policyholders; repayment of mortgages in the event of death of policyholders with life protection and lump sums payouts to policyholders with serious illness cover.

Benefits and claims paid by life assurance companies increased by almost 50 per cent since 1999.

Non-Life Insurance Premiums and Claims 1999 – 2003

Year	Gross Earned Premium €m	Gross Incurred Claims €m
1999	2154	1992
2000	2469	2411
2001	2905	2624
2002	3641	2870
2003	4169	2669

Gross earned premium for non-life insurance grew by 17 per cent per annum between 1999 and 2003 due to a number of factors including: an increase in motor claims costs which had the knock-on effect of pushing up rates; an increase in exposure on existing risks and growth in new business as the economy expanded. Reinsurance costs also increased significantly over this period.

Gross incurred claims grew by 7.6 per cent per annum in the five-year period from 1999 to 2003. Therefore, given the increase in premium income and with administration expenses virtually static as a percentage of premium income, underwriting losses reduced significantly and indeed the market made an overall underwriting profit of €397m in 2003 compared with an underwriting loss of €255m in 1999.

Employment in Insurance Companies in Ireland as at 31st December 2003

	Full-Time Staff	Part-Time Staff
Life	7,422	499
Non-Life	6,747	559
Total	14,169	1,058

The value of the insurance sector to the Irish economy is also highlighted by the numbers employed by insurance companies. Insurance companies employed over 15,000 people in Ireland as at the end of December 2003 with approximately 93% of the jobs being full-time. This is in addition to the numbers employed in the wider insurance industry e.g. in broking, loss adjusting etc.

Irish Insurance Market in an International Context

The Irish Insurance Market in the World 2003

	GLOBAL SHARE %					Total Gross Premiums as % of GDP	Total Gross Premiums Per Capita USD
	Population	GDP	Life Gross Premiums	Non-Life Gross Premiums	Total Gross Premiums		
Ireland	0.06	0.41	0.52	0.38	0.46	8.8	3455
EU ¹	6	28.9	32.4	30.5	31.6	8.6	2448
OECD	18.2	81.8	91.7	92.8	92.1	8.9	2362
Europe	12.7	34.1	34.9	34.3	34.7	8.0	1282
Americas	13.7	37.2	31.1	50.2	39.3	8.5	1350
Asia	59.5	25	31.2	12.9	23.3	7.5	183
Oceania	0.5	1.6	1.4	1.7	1.5	7.7	1449
Africa	13.6	2	1.3	0.7	1.1	4	36
World	100	100	100	100	100	8	469

1. EU 15 Member States prior to May 2004 enlargement

Figures are rounded

Sources: Swiss Re Sigma No 3/2004; CSO and IIF

The above table sets the Irish insurance market in both a European and a global context. Relative to our population, both our GDP and our share of global insurance premiums are relatively high. This would suggest that Ireland is a relatively productive economy. In terms of insurance penetration (premiums as a percentage of GDP), there are number of reasons as to why Ireland's figures are towards the higher end of the world league. One such reason is the developed market in Ireland for insurance and the relatively high levels of coverage in major classes of business such as motor, property, liability, pensions and mortgage protection compared to other countries, particularly those in less industrially advanced regions. Another reason is the relatively high cost of some non-life insurance products in Ireland.

Insurance Density: Premiums Per Capita 2003 in Selected Advanced Industrialised Countries

Country	Premium Per Capita 2003 (USD)
Belgium	2876
Denmark	3116
France	2698
Germany	2051
Ireland	3455
Italy	1913
Spain	1146
Sweden	2358
Switzerland	5660
United Kingdom	4058
Australia	2041
Japan	3771
United States	3637

Figures are rounded

Sources: Swiss Re Sigma No 3/2004, CSO, IIF

The table above illustrates the premium spent per capita for 2003 in Ireland compared to some other advanced industrialised countries. The figure for Ireland of \$3,455 is higher than some other European countries such as Germany, Spain and Sweden but lower than the United Kingdom, the United States, Switzerland and Japan. A factor which needs to be noted particularly when making comparisons with other European states is that in countries such as France, Germany and Sweden which have higher taxation rates and developed social insurance systems, a greater proportion of the costs associated with accidents are catered for through the social insurance system. This has an impact on the level of compensation awarded for personal injury claims paid by insurance companies, and ultimately on premium rates.

* non-life chapter

2

Glossary of Non-life insurance terms

COMMISSION

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

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 2003, 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 2003 would be €15m (€10m + €(55m-50m)).

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.

MANAGEMENT EXPENSES

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

OPERATING RESULT

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

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.

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 2003, the written premium for 2003 will be €500, and so will the earned premium. But if the same policy is issued on 1st July 2003, 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 2004 earned premium. This is because half of the premium written will be in respect of the exposure of loss during the first half of 2004.

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.

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.

2003 Non-Life Key Statistics

Class of Business	PREMIUMS €m			CLAIMS		Net Underwriting Result €m	Estimated Investment Income €m	Estimated Net Operating Result €m
	WRITTEN		EARNED	Net Incurred €m	No. of new claims notified			
	Gross	Net	Net					
Private Motor	1288.7	1233.2	1187.4	864	161940	161.4	125.4	286.8
Commercial Motor	606.1	554.9	514.3	414.5	48376	41.8	56.5	98.2
All Motor	1894.8	1788.1	1701.7	1278.5	210316	203.2	181.9	385.0
Household	583.3	480.4	460.3	252.8	102841	85.9	19.1	104.9
Commercial	574.7	397.6	378.5	187.9	17330	96.1	24.5	120.7
All Property	1158.0	878.0	838.8	440.7	120171	182.0	43.6	225.6
Employer's	431.2	382.6	341.5	289.7	7222	-12.3	53.4	41.1
Public/Products	428.7	360.4	359.1	303	11367	-6.3	58.9	52.6
All Liability	859.9	743.0	700.6	592.7	18589	-18.6	112.3	93.7
Personal Accident/ Travel	76.5	61.7	57	33.8	13309	10	4.8	14.8
Other Classes	249.9	136.4	148.1	64.1	21209	20.8	7.0	27.8
All Business	4239.1	3607.2	3446.2	2409.8	383594	397.4	349.6	746.9

The IIF's 20 non-life members write in excess of 95 percent of domestic non-life premiums. In 2003, IIF members wrote gross premiums of €4239m and motor remained by far the largest class of insurance at €1895m (44.7 per cent of non-life business). Net written premiums (i.e. total premiums after reinsurance costs have been deducted) were €3607m, which represents an increase of 14.1 percent on 2002. Net earned premiums were €3446m in 2003.

In 2003, IIF members were notified of 383,594 new claims. Over half (55 per cent) of new claims were motor related while approximately a further third (31 per cent) were property related.

Net incurred claims costs declined marginally last year by 3 per cent to €2409.8 m.

The net underwriting result of the non-life market in 2003 was a profit of €397.4m compared to a loss of €45m in 2002. The combined operating profit of the 20 companies in the non-life market was €746.9m for 2003.

Motor Insurance

Gross written premium for motor insurance was just under €1895m in 2003, which was virtually unchanged from 2002 (+ 0.2 per cent).

Motor insurance business accounts for almost 45 per cent of total non-life premium, making motor insurance by far the largest class of business in the Irish non-life market. Over two-thirds (70 per cent) of motor insurance premiums are earned from the private motor insurance market while almost one third (30 per cent) are earned from commercial motor business.

Net earned motor premiums increased from €1588.9m in 2002 to €1701.7m in 2003 (up 7.1 per cent).

Net incurred claims costs decreased by 7.5 per cent from €1382.2m in 2002 to €1278.5m in 2003. A key factor was the reduction in the frequency of claims. An important contributor to the reduction in claims in 2003 was the introduction of the penalty points system. The system was introduced in November 2002 and was particularly effective in the early part of 2003 when motorists feared detection. However, this effect unfortunately wore off with the passage of time as it was increasingly realised that enforcement of the penalty points system is not as efficient as the motoring public initially feared. The ban on “no win, no fee” advertising by solicitors from February 2003 has also had an impact on the frequency of claims. Another contributor to the reduction in claims was the launch in February 2003 by the IIF of *Insurance Confidential*, a lo-call hotline for members of the public to report suspected insurance fraud, accompanied by a high-profile advertising campaign. In the first year of its operation over 1,300 cases of suspected fraudulent claims were reported. The hotline is also increasingly serving as an effective deterrent to would be fraudsters.

The net underwriting profit in motor insurance rose significantly from €18.5m in 2002 to €203.2m in 2003. This is a result of the increase in net earned premiums and the reduction in net incurred claims referred to earlier.

Motorists often tend to relate the cost of motor insurance to the value of their car. In fact, the greater part of a private motor insurance premium covers the third party insurance risk. Third party insurance covers the insured driver against liability to compensate others for personal injury and property damage caused by the insured driver. The cost of insuring against fire damage, theft, and accidental damage to the insured's own car is relatively small in comparison. Typically, about 70 per cent of the premium for a comprehensive policy – and about 85 per cent of the premium for a third party, fire and theft policy – is used to cover the third party risk.

Property Insurance

In terms of size, the property insurance market is split almost 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 €1158m in 2003, up nearly 14% on the previous year. This is due to a number of factors including expansion of the housing stock and increased rebuilding costs.

Net written premium increased by 14.7 per cent to €878m.

Net earned premium at €838.7m and net incurred claims at €440.7m resulted in a net underwriting profit of €182m in the property insurance market in 2003.

For the first time in seven years, there was no severe weather event in 2003 and this contributed significantly to the positive operating profit results.

Liability Insurance

The liability insurance market divides almost equally in premium income between employer's liability and public liability (including product liability and professional indemnity insurances).

IIF liability insurance members wrote gross liability premiums of €859.9m in 2003 up 18.6 per cent on the previous year. This increase may be explained by a number of variables including increases in rates in the first part of the year, (although rates began to fall towards the end of 2003); an increase in exposure as total payroll and turnover increased; and also some organic growth due to new risks seeking cover as the economy began to pick-up.

Net earned premium increased by 26.9 per cent, from €552.3m in 2002 to just over €700.6m in 2003.

The underwriting loss for 2003 was €18.6m. This compares with an underwriting loss of €115.7m in 2002.

Other Non-Life Lines

Personal accident and travel insurance written by IIF members amounted to €76.5m gross in 2003, an increase of 56.4 per cent from 2002. This class of business generated a modest net underwriting profit of €10m, up from €4m in 2002.

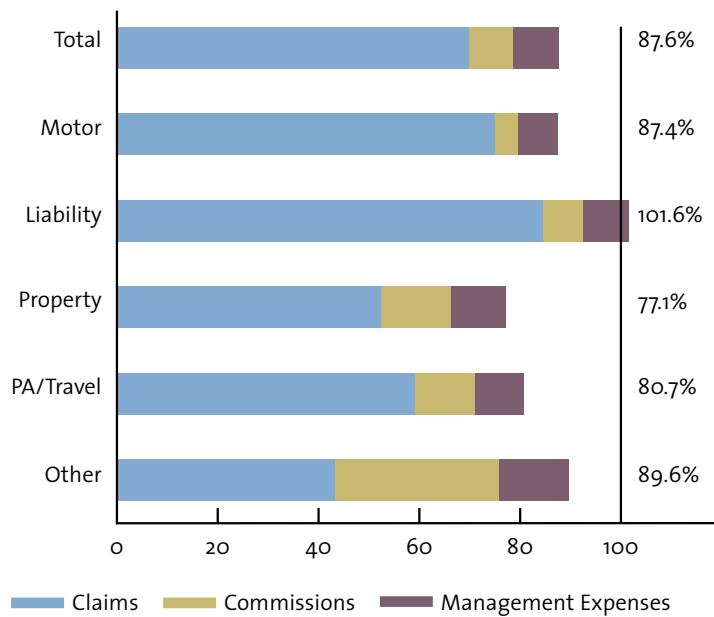
Other classes of non-life business – including marine, aviation and transit (MAT), credit and suretyship, other financial loss covers and legal expenses insurance was worth almost €250m in gross written premium to IIF members in 2003. These classes produced a net underwriting profit of €20.8m for the year.

Investing Non-life Premium Income

Non-life insurers' technical reserves are principally invested in cash and gilts, with only 10 – 15 per cent invested in equities. This is because of the need for security balanced by liquidity in order to meet claims and other short-term liabilities, and is in contrast to the investment portfolios of life and pensions companies which are principally invested in assets which have historically given a better long-term return, in particular equities and property.

Operating Ratios

Non-Life Insurance Operating Ratios 2003



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 incurred as a proportion of premiums earned. In 2003, the IIF non-life market produced a net claims ratio of almost 70 per cent – in other words claims cost 70 cent out of every €1 earned in premium. The claims ratio varied between sectors: in motor insurance it reduced from 87 per cent in 2002 to 75 per cent in 2003, while the property claims ratio improved from 65 per cent in 2002 to 53 per cent in 2003. Although the liability claims ratio fell to 85 per cent, this ratio is the highest for the various classes of non-life insurance.

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 net commission ratio in 2003 was 8.6 per cent. The net management expenses ratio for the non-life market in 2003 was 9.2 per cent.

The net *combined or operating* ratio combines the claims, commissions and management expenses ratios. The operating ratio for the non-life market improved significantly from 100.5 per cent in 2002 to 87.6 per cent in 2003. In monetary terms this means that the non-life market made 12.4 cent on underwriting insurance for every €1 of premium earned in 2003. The operating ratio for liability business was still, however, unacceptably high at 102 per cent.

Non-Life Insurance Market Results 1999-2003¹

	Gross Written Premium	Net Underwriting Result	Investment Income	Operating Result	Profit: Premium%
	€ million	€ million	€ million	€ million	
1999	2304	-255	280	25	1.0%
2000	2690	-454	293	-161	-6.0%
2001	3323	-390	317	-73	-2.0%
2002	4120	-42	268	226	5.5%
2003	4239	397	350	747	17.6%
5 years	16676	-744	1508	764	4.6%

Sources: 1999 to 2002 data – Department of Enterprise, Trade & Employment's Insurance Annual Reports; 2003 data – IIF.

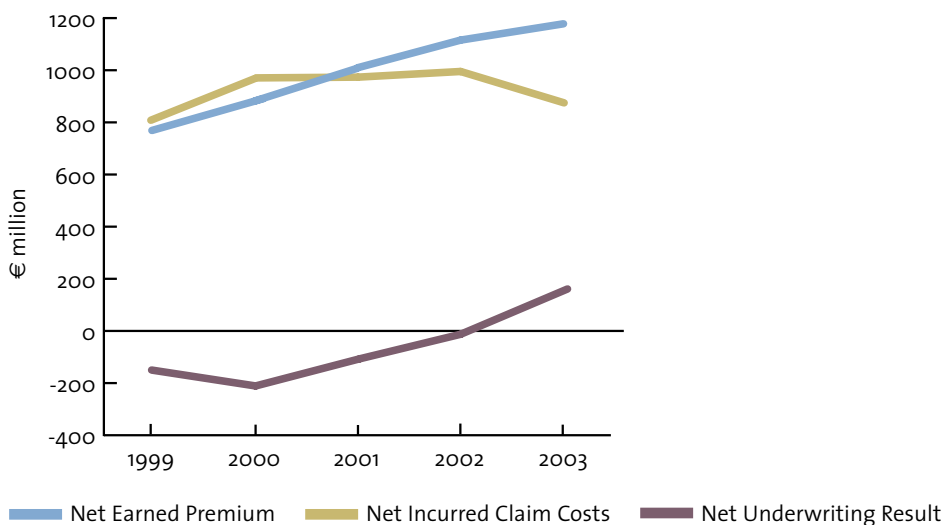
¹ The data for 1999 – '02 is taken from the Department of Enterprise, Trade & Employment's Insurance Annual Reports (known as the Blue Book) as it contains returns for all insurers. The data for 2003 is based on data supplied by IIF members as the Blue Book has yet to be published.

As the Blue Book does not provide a breakdown for every class of business, the data in the seven subsequent charts has been created from data supplied by IIF members. This explains any small discrepancies between the first and main chart and the seven subsequent charts, which provide details by class of business.

The chart shows the net underwriting result, investment attributable to the underwriting account and the operating result for the non-life business market for the years 1999 to 2003. While the underwriting result has improved significantly from a loss of €255m in 1999 to a profit of €397m in 2003, the market made an underwriting loss in four out of the last five years. The cumulative underwriting result for 1999 – 2003 was a loss of €744m. Investment income on technical reserves (income plus realised gains/losses on disposal of investments and unrealised gains/losses on year-end investment holdings) has in the past when underwriting results were weak, generally enabled insurers to generate an operating profit. Although this was not the case in 2000 and 2001, the situation turned round in 2002 and this upward trend continued in 2003. After investment income was taken into account, the 20 non-life insurers made a combined operating profit of €747m last year.

Over the five-year period from 1999-2003, €4.6 of every €100 received in premium translated into profit for insurers.

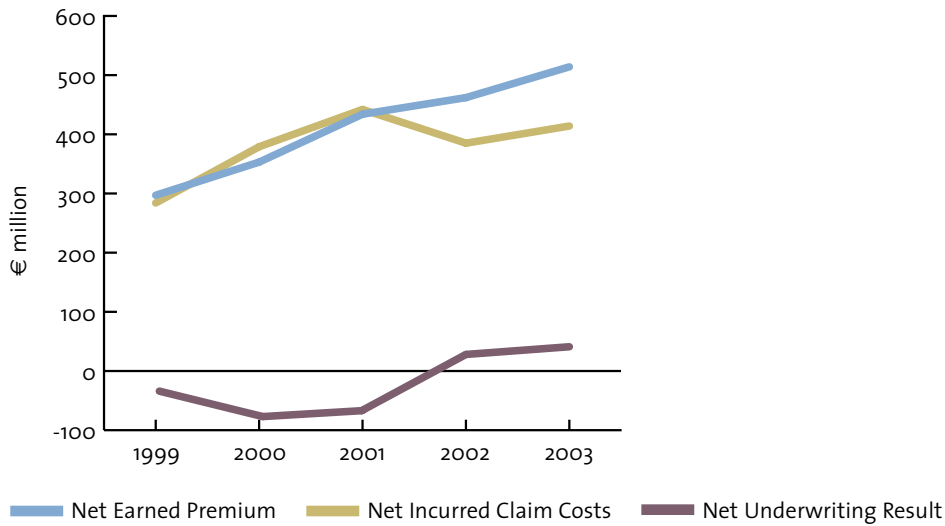
Private Motor 1999 – 2003



Net Earned Premium (NEP) in the private motor market has increased by 11.1 per cent per annum over the five-year period 1999 to 2003, from €778m in 1999 to €1187m in 2003. Net earned premium increased as the number of vehicles grew significantly due to the economic boom which dominated much of this period. In addition, a stubbornly high claims ratio over this period inevitably led to higher premiums. In 2003, claims costs began to fall and this in turn meant that premiums began to reduce – a trend, which continued into 2004.

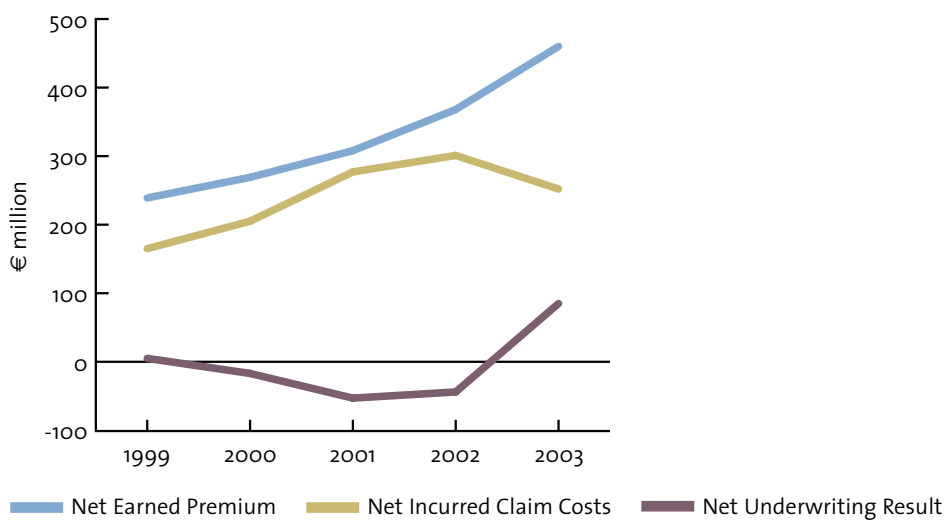
The net underwriting result was a cumulative loss of €316m (over 6 per cent of NEP) between 1999 and 2003. 2003 was the first year in the previous five that the market achieved a positive underwriting result.

Commercial Motor 1999 – 2003



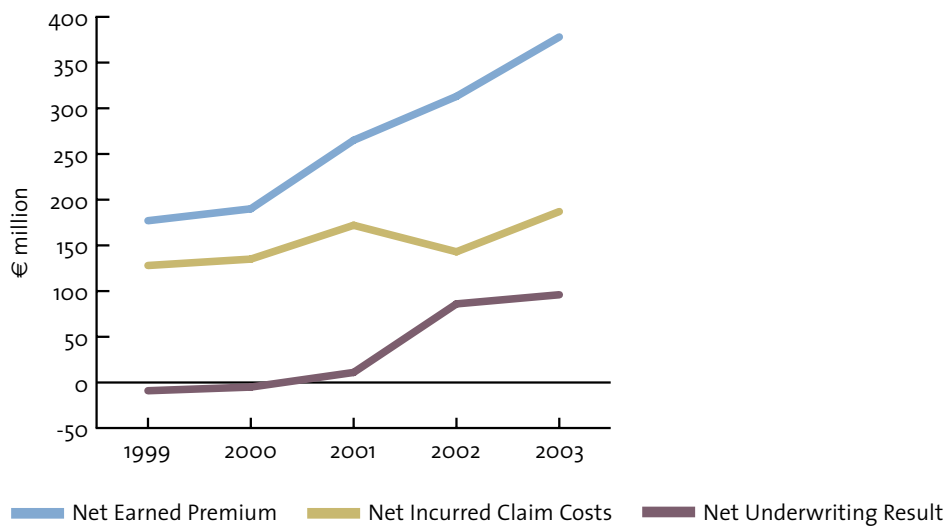
The size of the commercial motor insurance market increased by 14.7 per cent p.a. in the five-year period 1999 to 2003. Underwriting results improved with profits in 2002 and 2003. Nevertheless, the overall underwriting result over the five years 1999-2003 was a disappointing loss of €109m (over 5 per cent of NEP), with particularly heavy losses in 2000 and 2001.

Household 1999 – 2003



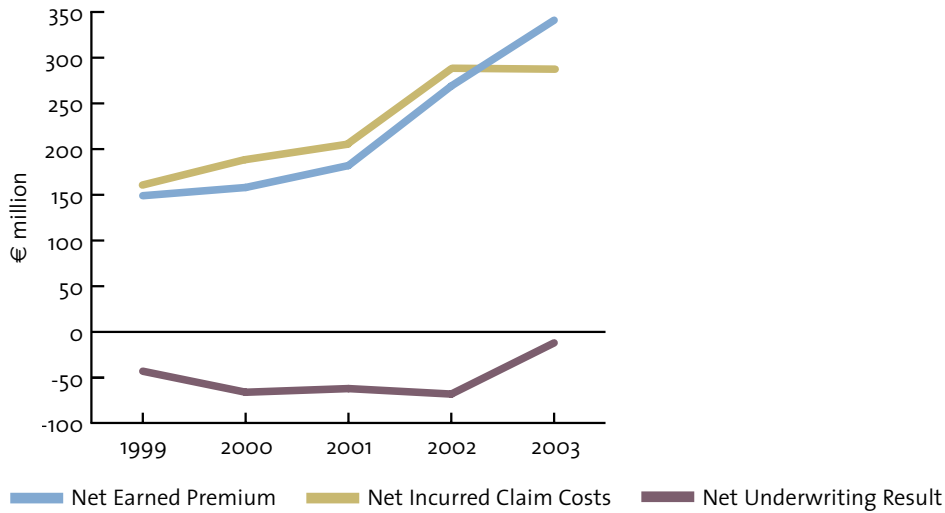
The household insurance account registered a significant turnaround in its underwriting result, from a loss of €44m in 2002 to a profit of €85m in 2003. As highlighted earlier, this is largely attributable to the benign weather conditions in 2003. Over the five years 1999 – 2003, the household insurance account produced a small underwriting loss of €24m (-1.5 per cent of NEP).

Commercial Property 1999 – 2003



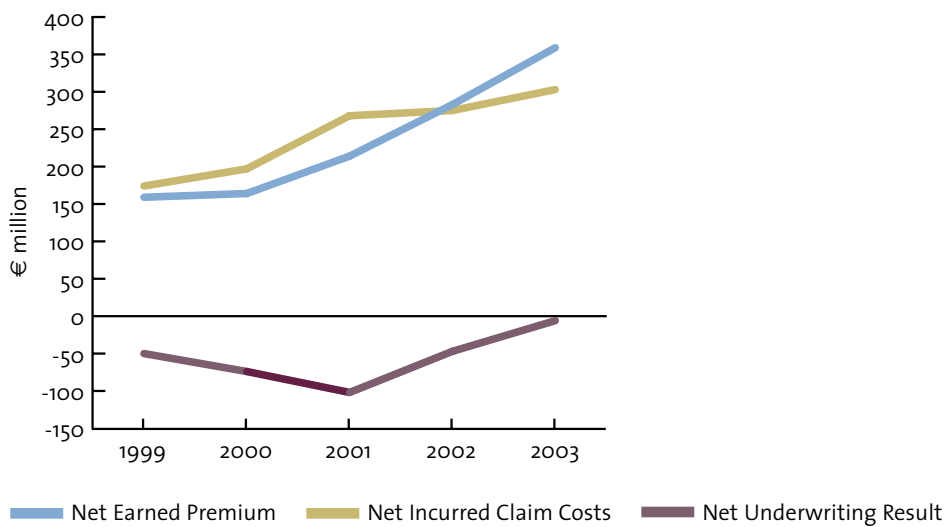
Commercial property insurance made an underwriting profit in three of the five years under review. From small underwriting losses in 1999 and 2000, commercial property insurance returned a growing underwriting profit in 2001 – 2003.

Employer's Liability 1999 – 2003



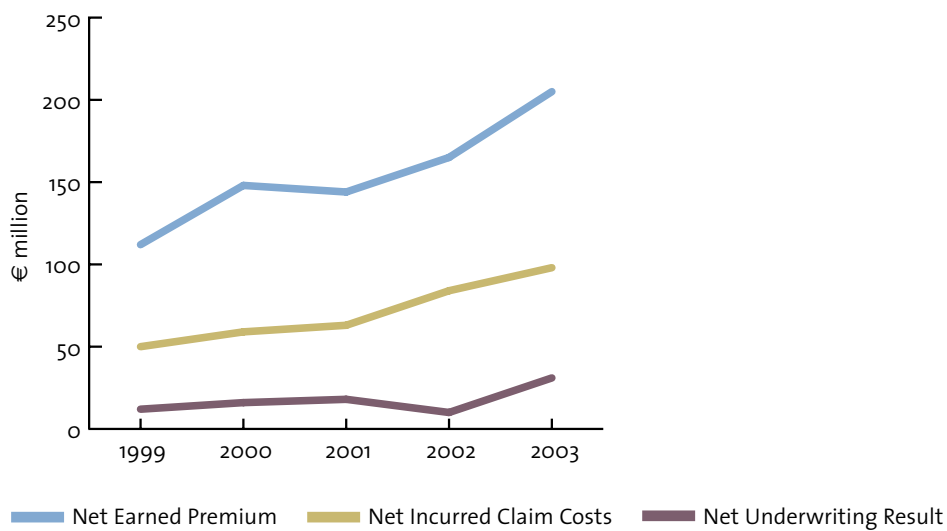
The above data clearly illustrates that employer's liability insurance has continued to prove to be a difficult area for insurers with a cumulative net underwriting loss of €251m (nearly 23 per cent of NEP) between 1999 and 2003. The results for 2003 are an improvement although insurers in this class of business made a loss of €12m.

Public Liability 1999 – 2003



As with employer's liability, public liability insurance also gives cause for concern. There have been consistent underwriting losses, reaching a low of €102m in 2001 and then improving gradually to a loss of €47m in the year 2002 and to a loss of €6m in 2003. Over the five years 1999 – 2003, net underwriting losses aggregate to €279m or 23.7 per cent of NEP.

Other Classes 1999 – 2003



Other classes of insurance include personal accident, travel, and financial loss insurances. The situation for these business lines is positive. In the period under review, there was an underwriting profit every year.

Appendix I

IIF Non-Life Members' Gross Written Premium 2003

€'000 Company	Motor	Property	Liability	PA/Travel	Other Classes	Total
ACE	958	8826	15469	9451	4694	39398
AIG Europe	41389	43470	58563	21854	45993	211269
Allianz	191044	213126	149326	2293	42864	598653
AXA	453103	82695	-15	4916	0	540699
Combined	0	0	0	0	59602	59602
DAS	0	0	0	0	4434	4434
DeMontfort	0	0	0	0	2630	2630
Eagle Star	176279	126554	74345	394	4030	381602
Ecclesiastical	3	6627	2703	40	0	9373
FBD	180074	100137	80842	3666	3900	368619
GE Financial	0	0	0	0	53725	53725
Generali	0	-2	-10	1785	8	1781
Halifax	0	0	0	0	0	0
Hibernian	492037	259455	159181	10308	4142	925123
Irish Public Bodies	11317	21912	90381	0	346	123956
MAPFRE	0	0	0	0	1212	1212
Pinnacle	0	0	0	3790	13247	17037
Probus	9761	0	0	0	0	9761
Quinn-Direct	196469	8238	95652	0	0	300359
Royal & Sun Alliance	102831	259462	80982	18011	8886	470172
St Paul	27954	17385	49501	0	0	94840
Zurich	11603	10062	2932	0	252	24849
Total	1894822	1157947	859852	76508	249965	4239094

* life chapter

33

Glossary of Life assurance terms

ANNUAL (REGULAR) PREMIUM

A policy where the policyholder makes annual/regular payments of premium to finance life assurance protection cover or to build up an investment or retirement fund. Premiums are invested by the life office as they are received and build up over time – with accumulated investment gains – to provide a lump sum of maturity, for payment to the policyholder or purchase of a retirement annuity.

ANNUAL PREMIUM EQUIVALENT (APE)

An industry standard formula for calculating levels of life and pensions new business over a period of time, to smooth out the effect of large, one-off payments. It is the total of new annual premiums plus 10% of single premiums.

CRITICAL ILLNESS

Critical illness insurance policies are 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.

INDUSTRIAL BRANCH BUSINESS

This refers to regular premium protection business where the life assurance company representative collects premiums usually on a weekly basis. The importance of this type of business has declined over the years.

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.

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.

PENSIONS/ANNUITIES

For many people, the income they receive from the State of 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 assurance company, the policyholder will receive a regular income at retirement. This regular income during retirement is called an “annuity.”

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).

PERSONAL RETIREMENT SAVINGS ACCOUNTS

Personal Retirement Savings Accounts were introduced as new easy access, low cost, flexible personal pensions, to encourage individuals who have not already done so to make a provision for retirement. PRSAs pensions products were launched on the market in early 2003.

SINGLE PREMIUM

A lump sum life investment or pension policy under which the policyholder makes a one-off payment to the life office. The life office uses the money to provide life assurance protection or invests it on the policyholder's behalf, for repayment, with investment gains, at the end of the policy term (or in the case of a pension, for purchase of retirement benefits when the policyholder retires).

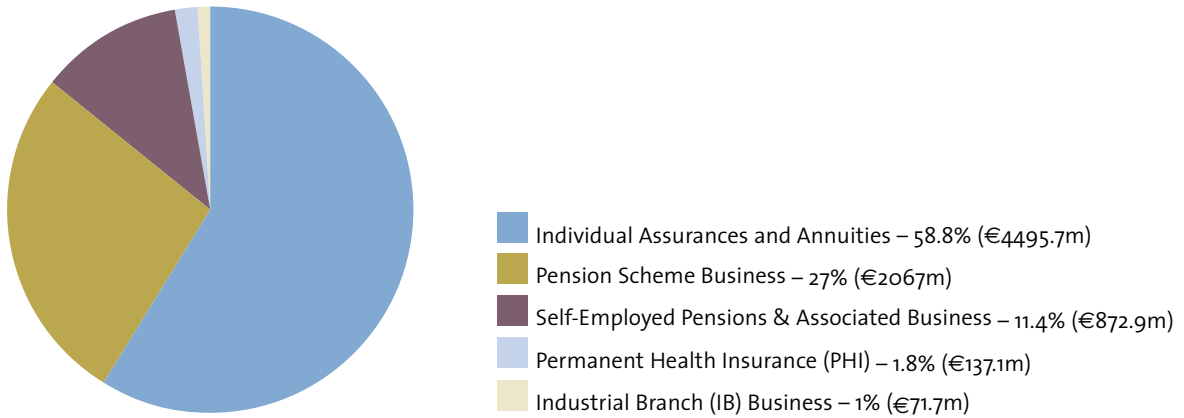
2003 Life Assurance Key Statistics

	NEW BUSINESS €m			Total Annual Premium €m (3)	All Business €m (2) + (3)
	Annual Premium (1)	Single Premium (2)	A.P.E. (1) + 10% of (2)		
Individual Assurances and Annuities	226.9	2436.1	470.5	2059.6	4495.7
Pension Scheme Business	333.9	946.9	428.6	1120.1	2067.0
Self-employed Pensions (Incl. PRSAs)	127.4	423.0	169.7	449.9	872.9
Permanent Health Insurance	22.7	0	22.7	137.1	137.1
Industrial Branch Business	1.6	0	1.6	71.7	71.7
Total	712.5	3806.0	1093.1	3838.4	7644.4

In 2003, the IIF's domestic life assurance members had aggregate premium income of €7644.4m, which represents an increase of 5.4 per cent on the previous year (€7253.3m).

New annual premium (AP) business was €712.5m (down 28 per cent). Meanwhile, new single premium (SP) business grew to €3806m (+ 4 per cent). Overall, the new business annual premium equivalent (AP business + 10% of SP business) was €1093.1m (down 20 per cent). This may reflect the relatively flat state of the economy in 2003 together with the impact of the introduction of SSIA's during 2001 and 2002 which had the effect of absorbing a significant amount of the surplus cash available for investment.

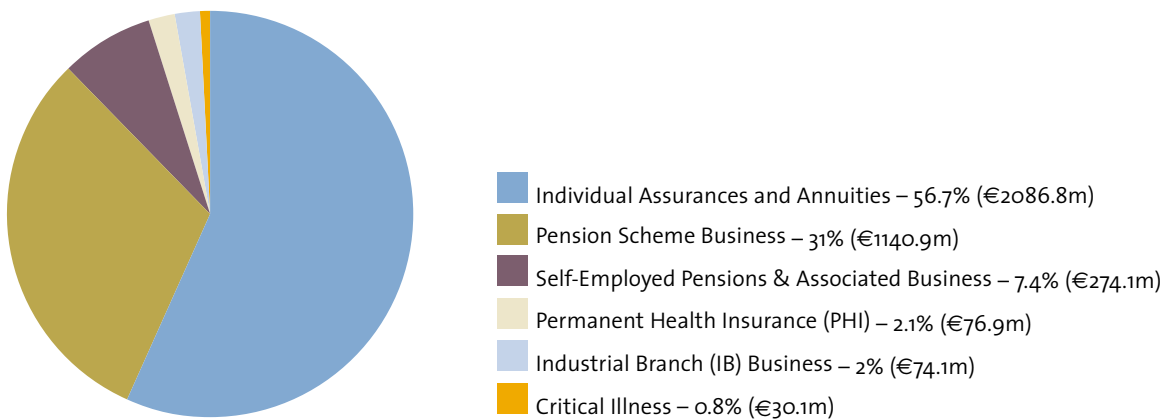
Life Assurance Gross Premium Income 2003 (by type of policy)



Personal Retirement Saving Accounts

One of the main recent developments in the life assurance industry was the introduction of Personal Retirement Saving Accounts (PRSAs) by the Government as a new, flexible approach to pensions in order to improve levels of pension coverage. Over 18,000 PRSAs were sold by IIF life assurance company members in the first year of operation of this new product, with total premium worth €68.6m.

Life Assurance Benefits & Claims Paid 2003 (by type of policy)



€3683m was paid in benefits and claims by domestic life assurance companies during 2003. These payments and benefits cover a wide range of products which take a number of forms; for example, a one-off lump sum payment to a policyholder in the event of serious illness; or in the case of pensions, the payment of a regular income to a policyholder.

The bulk of claims were paid under individual assurance/annuity contracts (56.7 per cent) and pension schemes (31 per cent).

The total value of life assurance protection in force at the end of 2003 was estimated at €241bn, compared to €205bn in 2002.

Benefits and Claims By Type (€m)

Surrenders and Maturities	2948.4
Death/Critical Illness Claims	418.5
Annuities	316.0
Total	3682.9

The data provides a breakdown of benefits and claims by type. The largest category is benefits paid on policy surrenders and maturities, with €2948.4m paid in 2003 representing 80 per cent of total payments.

Death and critical illness claims under protection contracts amounted to €418.5m (11.4 per cent) in 2003 while annuity payments were €316m (8.6 per cent).

Sources of New business 2003

		Brokers %			Agents %			Tied Agents %			Employee & Company Representatives %			Direct %		
		2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003
Annual Premium	Life	8	15	16	1	1	1	17	17	9	25	21	5	1	1	5
	Pensions	25	32	42	1	1	1	10	6	7	9	6	5	3	2	9
	Total	33	47	58	2	2	2	27	23	16	34	27	10	4	3	14
Single Premium	Life	34	31	24	3	2	2	17	17	14	7	10	11	1	1	10
	Pensions	32	31	29	1	1	1	2	3	2	2	2	1	1	1	8
	Total	66	62	53	4	3	3	19	20	16	9	12	12	2	2	18

Figures are rounded

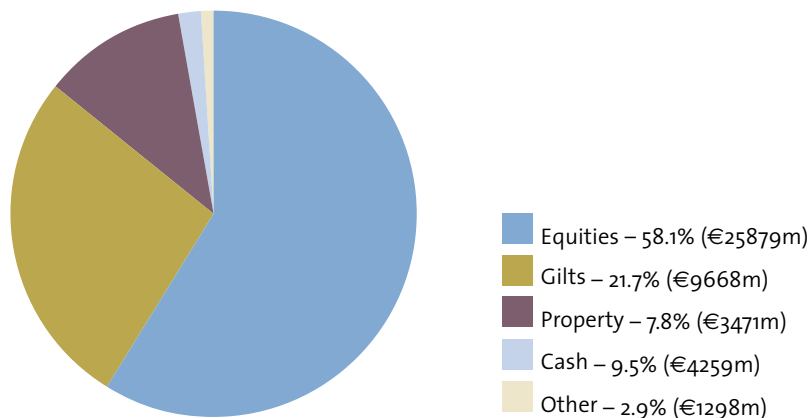
The table provides a breakdown of new life and pensions business written through the various sales channels. Brokers' new business market share increased by 11 percentage points to 58 per cent in 2003 for annual premium (AP) business. There was a decrease in brokers' share of single premium (SP) business from 62 per cent to 53 per cent.

The percentage of AP business written through tied agents fell 7 percentage points to 16 per cent and SP business also fell by 4 points to 16 per cent.

Life office employees and company representatives (direct sales forces) saw a fall of almost two-thirds in their share of AP business to (10 per cent in 2003) while their share of the SP market remained static at 12 per cent.

Meanwhile, direct sales other than through employed salespeople (e.g. telephone, internet and direct response sales) increased significantly in 2003. AP direct sales increased from 3 per cent to 14 per cent of all new business and SP sales increased from 2 per cent to 18 per cent.

Life Assurance Investments (Policyholders' Funds) 2003 €m



Policyholders' funds invested by IIF life members increased 17 per cent to €44,575m in 2003 (from €38,047m in 2002).

The value of equity investments increased by 22.7 per cent to €25.9bn. Equities now represent 58.1 per cent of total policyholders' funds, compared to 55.5 per cent at the end of 2002. This may be due to a recovery in the underlying value of equity investments held, together with additional investment in equities as a result of improved confidence in the market.

Meanwhile, life assurance funds invested in gilts increased by 13.5 per cent to €9668m. However, there was a decrease in the value of property assets (down 9.7 per cent to €3471m). This may reflect a view that the domestic property market has reached the top of its cycle and therefore, some funds have been moved out of this area. It is also worth noting that cash holdings increased significantly to €4259m (up 19.3 per cent, more than the overall rise in funds value).

Investments (Policyholders' funds)

Year	Irish €m	Foreign €m	Total €m
Equities ¹	10416	15463	25879
Gilts ²	2492	7176	9668
Property ³	3114	357	3471
Cash	3974	285	4259
Other	1077	221	1298
Total	21073	23502	44575

1 Inc. preference, guaranteed and ordinary stocks and unit trusts

2 Inc. Government, local & public authority securities

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

The table illustrates the breakdown of investments by location. 47 per cent of life companies' investments were in Ireland compared to 50 per cent in 2002. Domestic investment at the end of 2003 was €21,073m, with foreign investment at €23,502m. 2003 was the first year that the value of investments of policyholder funds abroad has exceeded investments in Ireland. This is a logical progression of the trend towards diversification of assets throughout the euro-zone, which has accelerated since the introduction of the single currency.

Almost half (49.4 per cent) of Irish investments are in equities (up from 46.3 per cent in 2002), with nearly one eighth (11.8 per cent) in gilts (down from 13.6 per cent in 2002). Cash holdings increased to 18.9 per cent (up from 17.9 per cent in 2002), and property holdings were down at 14.8 per cent (from 17.2 per cent in 2002).

Of the foreign holdings, 65.8 per cent are in equities (up slightly from 64.6 per cent the year before) and 30.5 per cent are in gilts (down marginally from 31.2 per cent in 2002) with relatively small holdings of property, cash and other investments, totalling around 4 per cent collectively.

Overall, property and cash holdings are mainly in Ireland, with a concentration in gilts and equities in the foreign investment portfolio.

Market Trends 1999 – 2003

€m	1999	2000	2001	2002	2003	Annual Change 1999 – 03
Premium Income (Annual Premium Business)	2082	2378	2953	3579	3838	16.5%
Premium Income (All Business)	5972	7601	7168	7253	7644	6.4%
New Business						
Annual Premiums	566	678	868	994	713	5.9%
Single Premiums	3898	5222	4215	3674	3806	-0.6%
Annual Premium Equivalent (APE)	956	1199	1290	1361	1093	3.4%
Benefits & Claims	2463	3253	4139	3731	3683	10.6%

Over the five years 1999 to 2003, annual premium business increased from €2082m to €3838m, an average rise of 16.5 per cent per annum. Total premium income increased over the same period from €5972m to €7644m (up 6.4 per cent p.a.).

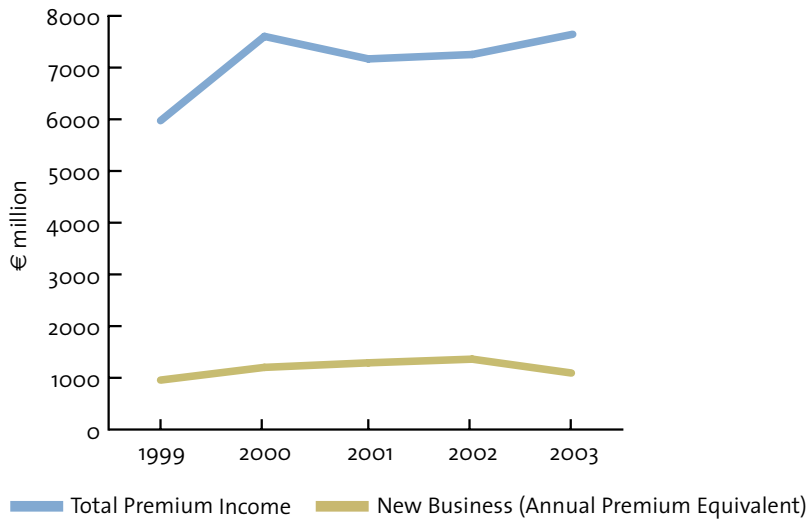
New annual premium business increased continuously and strongly by an average rate of 20.7 per cent p.a. from 1999 to 2002 but the significant fall for 2003 meant that the annual average rate of growth in new A.P. sales for the five-year period from 1999 – 2003 was only 5.9 per cent.

Single premium business rose from €3898m to €5222m in 2000, then fell from 2001 onwards before making a recovery in 2003 to €3806m. Over the five years there was an average decrease of 0.6 per cent p.a.

On an A.P.E. basis, new business rose significantly between 1999 and 2002 before falling in 2003, with an annual average growth rate of 3.4 per cent for 1999 – 2003.

Benefits paid increased by an average of 10.6 per cent p.a. over the period 1999 – 2003, having peaked in 2001 before falling back in 2002 and 2003.

Life Assurance Premium Income 1999 – 2003



Investments (by type)

% of total value	1999	2000	2001	2002	2003
Equities ¹	56.5	53.6	60.1	55.5	58.1
Gilts ²	26.1	27.7	20.5	22.4	21.7
Property ³	8.2	8.9	9.4	10.1	7.8
Cash	7.7	8.2	7.6	9.4	9.5
Other	1.5	1.6	2.4	2.6	2.9
Total	100	100	100	100	100

¹ Inc. preference, guaranteed and ordinary stocks and unit trusts

² Inc. Government, local & public authority securities

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

Since 1999, investment in equities has increased as a percentage of total investments, from 56.5 per cent in 1999, to 58.1 per cent in 2003, with intermediate rises and falls.

Investment in gilts has declined from 26.1 per cent in 1999 to 21.7 per cent in 2003.

The property portfolio grew consistently from 8.2 per cent in 1999 to 10.1 per cent in 2002 before falling back to 7.8 per cent in 2003. Cash holdings increased from 7.7 per cent in 1999 to 9.5 per cent in 2003, with a significant increase in 2002.

Investment in other assets has increased from 1.5 per cent in 1999 to 2.9 per cent in 2003.

Investments (by location)

% of total value	1999	2000	2001	2002	2003
In Ireland	59.0	57.0	53.0	50.1	47.3
Outside Ireland	41.0	43.0	47.0	49.9	52.7

As highlighted earlier, the proportion of investments in Ireland has been reducing and the proportion outside Ireland has increased. The five-year data illustrate these trends.

IIF Life Members' Foreign New Business 1999 – 2003 €m

		Annual Premium	Single Premium	A.P.E.
1999	EU	111.1	897.7	200.8
	Non EU	16.5	236.4	40.1
	Total	127.6	1134.1	241.0
2000	EU	140.4	1634.7	303.9
	Non EU	15.3	436.2	58.9
	Total	155.7	2070.9	362.8
2001	EU	94.9	1299.2	224.8
	Non EU	2.4	1001.5	102.6
	Total	97.3	2300.7	327.4
2002	EU	61.4	928.4	154.2
	Non EU	6.4	605.4	66.9
	Total	67.8	1533.8	221.1
2003	EU	40.3	1884.3	228.7
	Non EU	1.6	381.1	39.7
	Total	41.9	2265.4	268.4
Annualised Change % (A.P.E.) 1999-2003	EU			3.3%
	Non EU			-0.25%
	Total			2.7%

In 2003, IIF's life assurance members wrote foreign annual premium business of €41.9m. This represents a decrease of 38 per cent on 2002. This may reflect a move by cross-border product providers away from regular/annual premium products and towards single premium products.

New single premium business increased by 48 per cent, to €2265.4m. It grew significantly because of the upward trend in stock markets, which encouraged single premium investors. New annual premium equivalent (A.P.E.) sales increased to €268.4m in 2003 (up 21 per cent on the previous year). This is a result of the significant growth in single premium income offset to some extent by the fall in annual premium business.

Over the five years from 1999 to 2003, A.P.E. in EU countries has risen (+3.3 per cent p.a. over 5 years), whereas non-EU business fell by 0.25 per cent p.a. with a significant fall in 2002 from a high in 2001.

Overall new foreign business written by IIF life members increased by 2.7 per cent p.a. on an A.P.E. basis over the period.

Appendix II

IIF Life Members' Gross Premium Income 2003 €'000

€'000 Companies	LIFE BUSINESS			PENSIONS BUSINESS		
	Annual Premiums	Single Premiums	Industrial Branch	Annual Premiums	Single Premiums	Total
Acorn Life	54264	4091	0	12544	2795	73694
Anglo Irish	0	357554	0	16544	49786	423884
Ark Life	269460	387159	0	102098	29151	787868
Bank of Ireland Life/ New Ireland Assurance	495784	463086	3991	203610	180536	1347007
Caledonian	31221	76047	0	10177	4408	121853
Canada Life	184897	77602	0	115815	68645	446959
Combined Life	408	13017	0	100	0	13525
Eagle Star Life	120874	126641	0	132437	181356	561308
Friends First Life	142359	100112	0	183736	162468	588675
GE Financial	0	4592	0	0	0	4592
Hibernian Life	202937	74682	0	188657	201372	667648
Irish Life	473698	558439	0	440458	252514	1725109
Quinn Life-Direct	8538	1255	0	603	1194	11590
Royal Liver	66773	106553	65433	15119	5420	259298
Scottish Legal	2719	0	2255	111	0	5085
Scottish Provident	36822	31552	0	36698	13833	118905
Standard Life	103750	53672	0	110593	216437	484452
Total	2194504	2436054	71679	1569300	1369915	7641452

Irish Insurance Federation (IIF)

Insurance House, 39 Molesworth Street, Dublin 2

t +353 (t) 676 1820

e fed@iif.ie

w www.iif.ie

t 1890 333 333 (Insurance Confidential LoCall)