CEA
Insurers of Europe

CEA Statistics N° 32

The European Motor Insurance Market

December 2007

CEA member associations which took part in this study

ISO CODE	Country	
AT	Austria	Verband der Versicherungsunternehmen Österreichs (VVO)
BE	Belgium	Assuralia - Union Professionnelle des Entreprises d'Assurances
		Assuralia - Beroepsvereniging der Verzekeringsondernemingen
CH	Switzerland	Schweizerischer Versicherungsverband
		Association Suisse d'Assurances
CY	Cyprus	Insurance Association of Cyprus
CZ	Czech Republic	Česká asociace pojišťoven (ČAP)
DE	Germany	Gesamtverband der Deutschen Versicherungswirtschaft (GDV)
DK	Denmark	Forsikring & Pension (F&P)
EE	Estonia	Eesti Kindlustusseltside Liit
ES	Spain	Unión Española de Entidades Aseguradoras y Reaseguradoras (UNESPA)
FI	Finland	Suomen Vakuutusyhtiöiden Keskusliitto
FR	France	Fédération Française des Sociétés d'Assurances (FFSA)
GB	United Kingdom	The British Insurers' European Committee (BIEC)
GR	Greece	Association of Insurance Companies-Greece
		Association des Compagnies d'Assurances- Grèce
HR	Croatia	Croatian Insurance Bureau
HU	Hungary	Magyar Biztositók Szövetsége (MABISZ)
IE	Ireland	The Irish Insurance Federation (IIF)
IS	Iceland	Samband Íslenskra Tryggingafélaga
IT	Italy	Associazione Nazionale fra le Imprese Assicuratrici (ANIA)
LU	Luxembourg	Association des Compagnies d'Assurances du Grand-Duché de Luxembourg (ACA)
LV	Latvia	Latvijas Apdrošinataju Asociacija
MT	Malta	Malta Insurance Association
NL	The Netherlands	Verbond van Verzekeraars (VVN)
NO	Norway	Finansnæringens Hovedorganisasjon (FNH)
PL	Poland	Polska Izba Ubezpieczen (PIU)
PT	Portugal	Associaçao Portuguesa de Seguradores (APS)
RO	Romania	National Association of Insurance and Reinsurance Companies from Romania (UNSAR)
SE	Sweden	Sveriges Försäkringsförbund
SI	Slovenia	Slovensko Zvarovalno Zdruzenje (SZZ)
SK	Slovakia	Slovenská asociácia poistovni
TR	Turkey	Türkiye Sigorta ve Reasürans Sirketleri Birligi
		Association of the Insurance and Reinsurance Companies of Türkiye

CEA Statistics

www.cea.assur.org

About CEA

CEA is the European insurance and reinsurance federation. Through its 33 member bodies comprising of national insurance associations, CEA represents all types of insurance and reinsurance undertakings, e.g. pan-European companies, monoliners, mutuals or SMEs. CEA represents undertakings which account for approximately 94% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of €1,065bn, employ over one million people and invest more than €6,900bn in the economy.

Contents

Thanks

This publication would not have been possible without the active participation of the CEA Working Groups on Motor Statistics. We would like to thank the delegates on these groups for their active participation and their comments.

The work of CEA correspondents within the national associations in collecting and providing data relating to their market is the basis for the success of this undertaking. Thanks go to them for their participation.

Methodological note

CEA collects, analyses and compiles annually a substantial amount of general, financial and technical data relating to insurance and obtained from its members.

This financial information is collected in millions in each market's national currency. It is then converted into euros at the exchange rate on 31 December of each year for non-euro zone countries as published by the European Commission. (For 1992 to 1997 inclusive, the Ecu was the reference currency). The inflation-adjusted value is calculated on the basis of data in national currency converted by the price inflation rate published by the Eurostat. (Base 100 in 2005). Conversion into inflation-adjusted euros is done at the rate for the last year in order to cancel out variations in exchange rates. Variations on each market are then calculated for data in national currency for non-inflation adjusted variations and for data in national currency corrected for inflation for variations exclusive of inflation. Total variations per zone are calculated for euro and non-inflation adjusted euro totals.

Year on year variations have been calculated by subtracting from the total data countries for which there was no information for the previous or following year. The average growth over time represents the average of the past year on year variations

The market share of the figures presented is 100% for most market and slightly under this level for some others. Only Romania shows figures that represent between 70 and 80% of the market according to the year take into consideration and to the liability or damage insurance product.

Figures have been rounded-up to the nearest thousand and are in million of euros, unless otherwise stated.

Growth rate presented in the text are all inflation-adjusted unless otherwise stated.

Part I

Overview of the European Market

Background to the report

Motor insurance is the most familiar and widespread product of the insurance industry. With almost 300 million vehicles on the road, Europe has the largest motor insurance market in the world. The motor market is also the largest sector in non-life insurance business and generated a total premium income of almost €130bn in 2006.

As announced in its recent Green Paper on Retail Financial Services, the European Commission intends to include motor insurance in its initiative to tackle the further integration of EU retail insurance markets. The Commission has expressed an interest in looking in particular into (i) the price disparities across countries, (ii) the low cross-border transaction volumes and (iii) the absence of portability of motor insurance policies from one country to another. In relation to these issues, the European Commission would like to investigate further the availability of market-led solutions such as EU-wide motor insurance policies.

CEA believes the Commission should work towards promoting market-led initiatives. CEA supports initiatives which ultimately seek to allow European citizens to benefit more concretely from EU integration in the motor insurance field. In this respect, CEA is ready to assist the Commission by providing its expertise and experience in this particular market.

The aim of this report is to give an overview of the European motor insurance market and, in particular, to explain the components which make up the price of a premium and which lead to price disparities between countries.

Executive summary and recommendations

This report on the motor insurance industry in Europe aims to facilitate better understanding of the crucial role motor insurance plays in the economy, as well as greater awareness of the complexity of this market.

The motor insurance industry in Europe is competitive and follows a cyclical pattern

Market size

There are around 1,000 motor insurance companies active in Europe. In 2006, they generated a total premium income of €127.2bn, which corresponds to a 1% decrease (inflation adjusted) as compared to 2005. This fall is mainly driven by a reduction in policyholders' motor liability premiums.

Cost analysis/combined ratio

The total claims expenditure in Europe has remained more or less stable since 2000. A long-term observation of the claims ratio (claims expenditure/premiums) shows that the motor insurance market follows a cyclical pattern.

The declining trend observed for operating expenses compared to premium income highlights the efforts made by insurers to reduce the share of such costs in the premium price.

Observation of the combined ratio, which has fallen below 100% in recent years, confirms the cyclical nature of the insurance industry.

Economic theory explains the underwriting cycle of the insurance market as being driven by competitive forces.

A standardised approach to pricing is difficult due to country-specific features

While the level of motor liability premiums has decreased, there are large disparities among and within countries in the liability premiums per insured. They vary, for example, from €72 in Latvia to €391 in Luxembourg (CEA average: €186). Prices reflect differences in claims frequency and average claim cost between regions and countries. Thus, a person living in one country may pay more for his/her insurance than if he/she lived in another country because premium levels reflect the national environment.

Premiums are influenced among other things by the road safety conditions or the average level of claims costs (price of repair and spare parts, medical costs, etc).

The price paid by the policyholder is also affected by different national taxes and levies. For example, tax on motor insurance varies from zero in most new EU Member States, as well as Sweden and Norway, to over 55% of the premium price in Denmark.

The average cost of claims also varies across Europe due to different national laws. On the surface, whilst motor insurance may look the same to policyholders across Europe, policies in different Member States provide different amounts of cover (e.g unlimited cover, no fault compensation, vulnerable road users rule).

Since price disparities reflect local specificities, a standardised approach to pricing remains difficult.

Reducing the premium level through the reduction of claims frequency and average claims cost

Insurers set premiums according to their analysis of the likelihood that the policyholder will make a claim and the likely cost of such claims.

Claims frequency

This has decreased in most Western European countries - mainly thanks to better road safety - but it still varies significantly across Europe. For example, in Austria, 11% of policyholders made a claim in 2005 while this figure was only 3% in Finland. These differences can be explained by local specificities such as the road density, the number of vehicles, driving habits, the fraud rate, the non-insurance phenomenon, etc...

Average cost of claims

This also varies across the EU. For example, the average claim costs over €5,000 in Finland and over €4,000 in Italy while it is less than €1,000 in Latvia and Slovakia. The average cost of claims is driven by a range of different issues. Two key factors influence costs:

- Personal injury compensation – this is largely determined by national civil justice systems and civil courts. It should be noted that these costs tend to increase faster than inflation.
- Vehicle repair and spare parts – this is largely determined by the vehicle manufacturers. Where markets have not been liberalised, spare parts tend to be more expensive. The same part can vary in price by over 20% across Europe.

Policy recommendations

Against this background, CEA would recommend a focus on the following policy measures at EU and/or national level:

- Reduction of the level of the average premium to the benefit of the individual policyholder: in this context, CEA recommends measures to reduce the claims frequency and/or average claims cost as these would prove most successful. Concretely, enhancing measures to improve road safety as well as tackling uninsured driving and fraud would help reduce the number of claims.
- Further integration of EU motor insurance markets: CEA believes the European Commission should promote and encourage market-led solutions and recommends improving the existing EU regulatory framework instead of adopting new insurance legislation at EU level.
- Strengthening the benefits of EU integration in the motor insurance area for consumers: CEA proposes measures that lead to enhanced convergence of national legislation regarding vehicle registration.

I. Market overview

I.1 Number of motor insurance companies

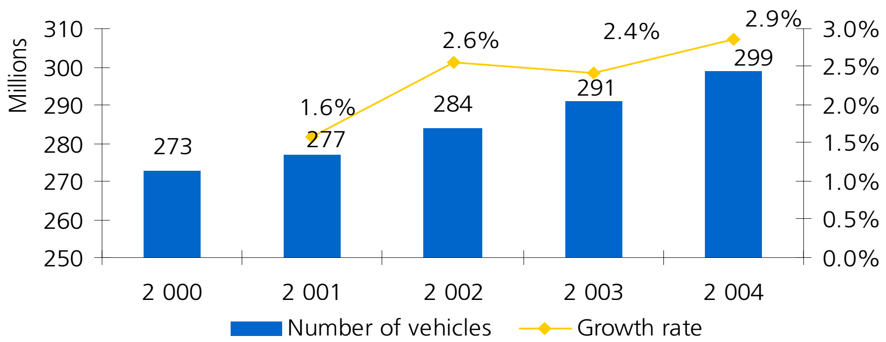
The number of companies operating on the European market in motor insurance (estimated for a sample of 22 countries representing 94% of the premium income) has been falling steadily during the last decade from 1,634 in 1998 to 1,250 in 2006[1]. This represents an average decrease of 3% over the full period. This concentration has been an ongoing process for several years.

I.2 Number of vehicles

Approximately 300 million vehicles are on the road in Europe

With approximately 300 million vehicles on the road, the European market is the largest motor market in the world just ahead of the North American (US and Canada) market, which numbers approximately 250 million vehicles (including all types). The European market has experienced a steady growth rate of 1.5% to 3% between 2000 and 2004[2], to reach a total of 299 million vehicles. On average over the last five years, the market has grown by 2.4%. About 78% of these vehicles are personal and commercial four-wheeled vehicles, 10% are utility vehicles and 12% are motorcycles.

Graph 1 | Number of vehicles in Europe



I.3 Motor Premiums

I.3.a Total motor premiums

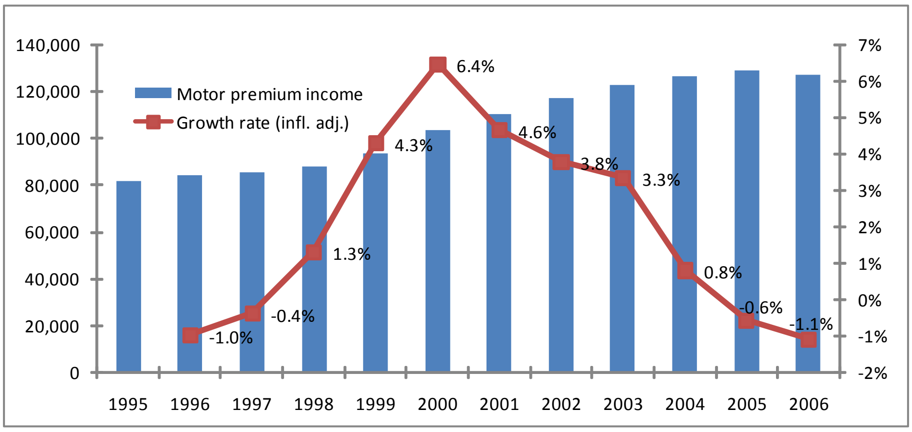
Total premium income in motor insurance amounted to €127.2bn in 2006

With €127.2bn of premium income, motor insurance is the largest category of non-life business, accounting for 31% of premiums. In 2006, this line of business recorded a negative growth rate of -1% (inflation adjusted) for the second consecutive year, despite increasing numbers of insured vehicles. This decline is mainly due to the high level of competition between insurers.

1 This figure reflects the number of licensed companies but not all of them are active. The proportion of inactive companies is reasonable in most markets; however the UK market provides an exception to this rule, since out of the 390 licensed companies, only 69 are active (50 domestic companies - of which 23 are subsidiaries of non UK companies -, 12 branches and 7 companies acting through FOS).

2 The lack of data does not allow 2005 data to be estimated.

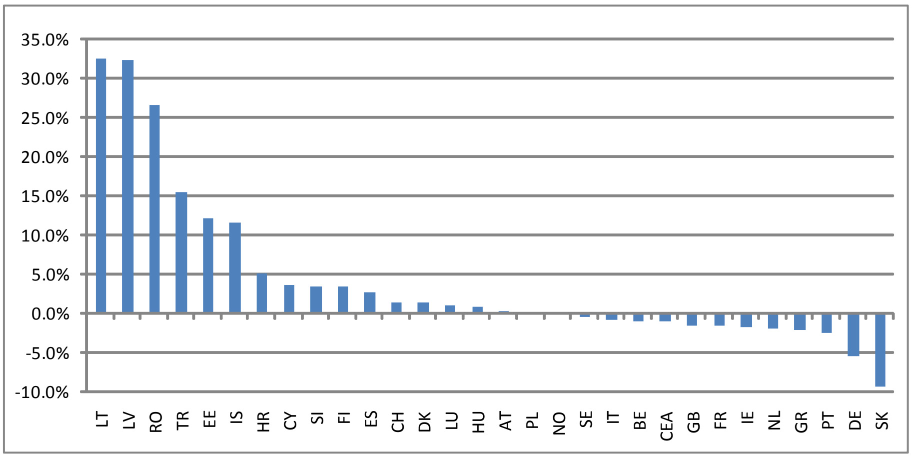
Graph 2 | Evolution of motor premium income (Euro million)



As the graph below shows, a decrease has been recorded in nearly half of the CEA member countries and is particularly significant in Western countries (Germany: -5.6%, Portugal: -2.7%, the Netherlands: -2%, France: -1.7%, the United Kingdom: -1.6%,...) where the market is the most saturated and yet most competitive.

The motor premium income decreased by 1.1% in 2006

Graph 3 | Growth rate in motor insurance per country in 2006 (inflation-adjusted)



This competition has given place to a wide range of premium reductions or incentives offered to consumers in order to attract more insureds without increasing too greatly the moral hazard and the risk of anti-selection. These reductions have taken the form of lower prices for good drivers, lower prices for insureds who drive only a few kilometres, pay-as–you-drive solutions, no change in bonus-malus for drivers who have few accidents, participation in profits…

All these incentives offered to insureds have substantially reduced the prices for motor third party liability, but have been made possible thanks to technical factors. On the one hand, the decrease in claims expenditure which is related to better road safety measures has enhanced competition between insurers, more specifically in terms of price reductions. On the other hand, the good financial results obtained by insurers since the end of the financial crisis at the beginning of this century have also improved the financial strength of the companies and therefore their ability to offer price reductions to insureds.

In future, any further changes in market conditions on the technical or financial side will have to be carefully taken into account by insurers in their pricing levels in order to avoid any deficit in the motor liability class as was the case at the end of the 1990s in several countries. Moreover, the rise in the price of repairs, spare parts and medical costs as well as the tendency to increase the compensation offered to victims in court cases has a growing adverse impact on the cost of claims and may significantly impact on the price level.

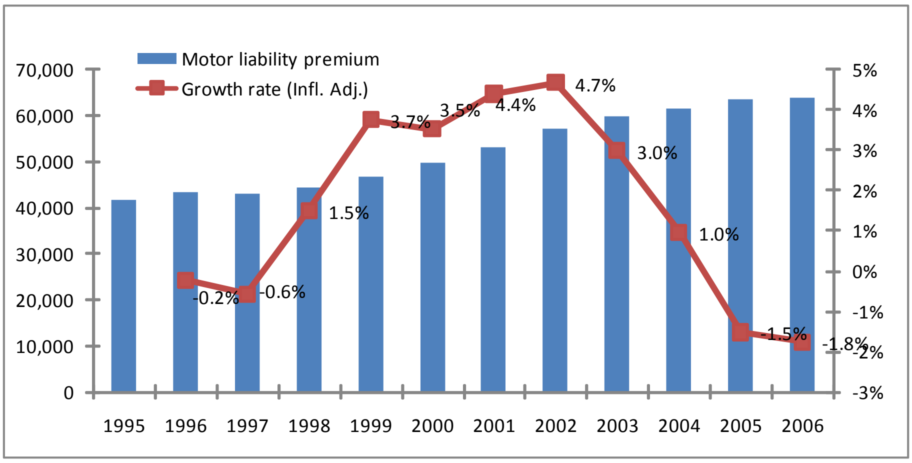
I.3.b Third party liability and damage premiums

Third party liability premium

Third Party Liability premium income decreased by 1.8% in 2006 against a 1.5% decrease in 2005

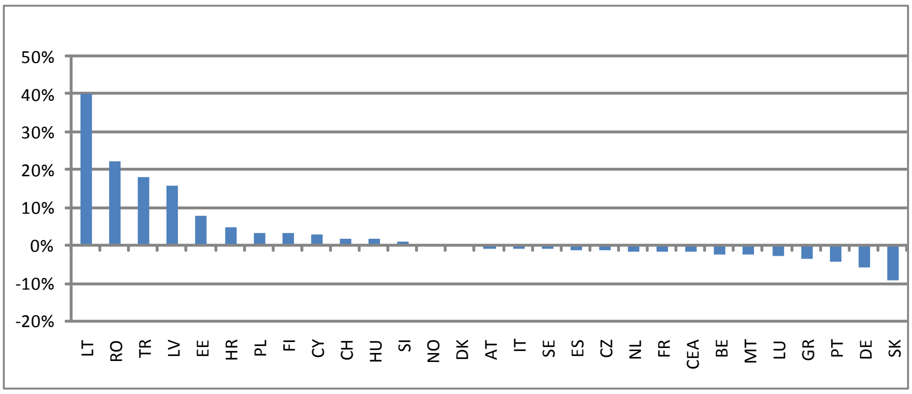
The premium income in motor liability represents a total of €64bn[3] and is in decline for the second consecutive year: -1.8% in 2006 against -1.5% in 2005. These growth rates are the lowest recorded for the last ten years. This reflects the intense competition between insurers to increase their market shares.

Graph 4 | Motor liability premium (euro million)



As with the total motor premium income, the growth rates recorded in the different European countries appear very diverse. The lowest growth rates are recorded in the Western countries while the highest ones are encountered in the new member states which are in a catch-up phase and which are facing growing risks.

Graph 5 | Growth rate in motor liability premium income in 2006



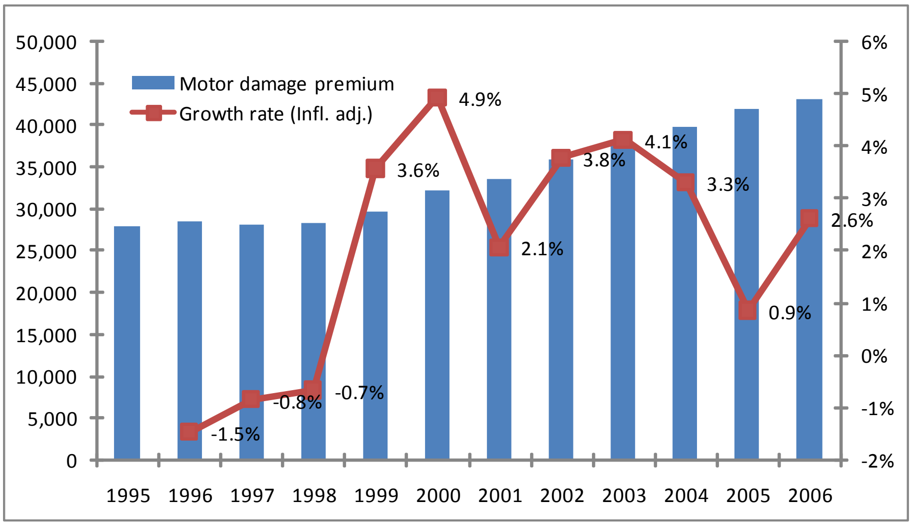
3 UK not included

Damage

The motor damage market, on which policies are not mandatory, represents a lower share of total motor premium income but shows a positive growth rate that contrasts with the negative one observed in motor liability. The premium income has grown by 2.6% in 2006 against 0.9% in 2005.

The rise in the cost of claims and in the price of spare parts is affecting the cost of damage insurance and explains the stronger growth observed in 2006. In other respects, motor damage insurance is less dependent on financial income, which is lower due to the short-term characteristics of this product and consequently, the proportion of provision is lower than in motor liability.

Graph 6 | Motor damage premium (euro million)



II. Cost analysis in motor liability and damage

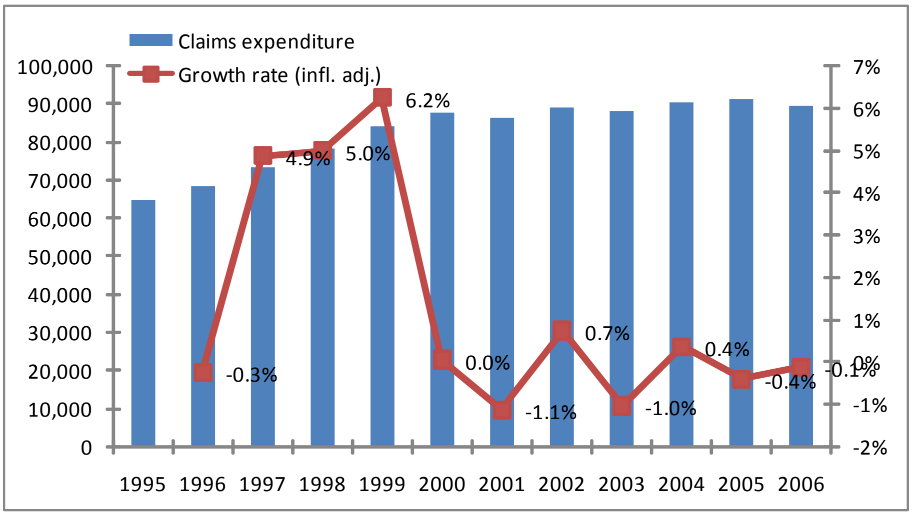
II.1 Evolution of expenditure and combined ratio

II.1.a Claims expenditure

Claims expenditure remained stable in 2006

After a substantial increase between 1994 and 1999, claims expenditure has remained more or less stable between 2000 and 2006. This stability has not been directly reflected in the premium income, in order to restore the profitability of this business line which experienced significant losses at the start of this decade.

Graph 7 | Evolution of claims expenditure in Europe (in € millions)



The relative stability in claims expenditure recorded since the beginning of the 21st century is among other things related to the reduction in the number of road accidents[4] which has consequently had an impact on the number of claims.

II.1.b Claims ratio

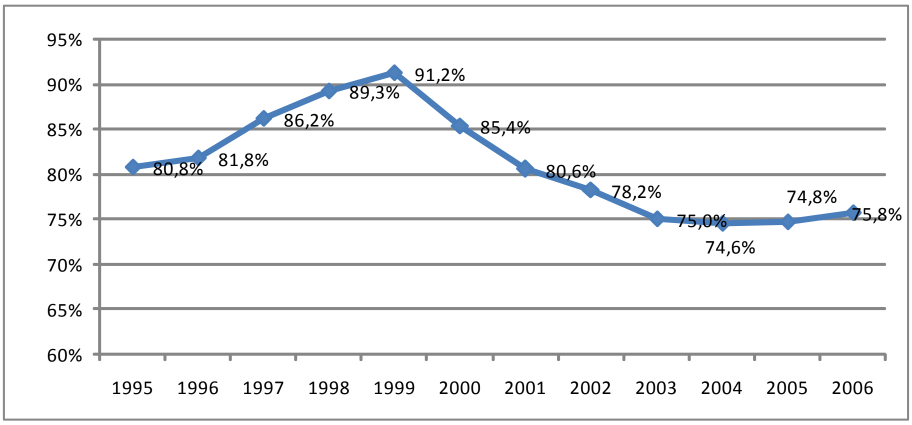
The long run observation of the claims ratio clearly shows the cyclic pattern of the motor industry

The claims ratio embodies the growth in both claims and premiums. The ratio reached 75.8% in 2006, compared to 74.8% in 2005. The long run observation of the claims ratio clearly shows the cyclic pattern of the motor industry. The years 1995 to 1999 are characterised by a continuous rise of the claims ratio indicating a faster increase of claims compared to premium income. This trend has led to an unsustainable situation and substantial underwriting losses for insurance companies. From 1999, the stability in claims expenditure and a slight increase in premium income have allowed insurers to restore their profitability and to absorb the reduction in investment income that occurred during the financial crisis of 2001.

The slight increase in the claims ratio in 2006 let assume that the insurance sector entered in the growing phase of a new cycle

The slight increases observed in 2005 and 2006 lead to the assumption that the insurance sector has entered into the growth phase of a new cycle that is likely to seriously reduce its profitability.

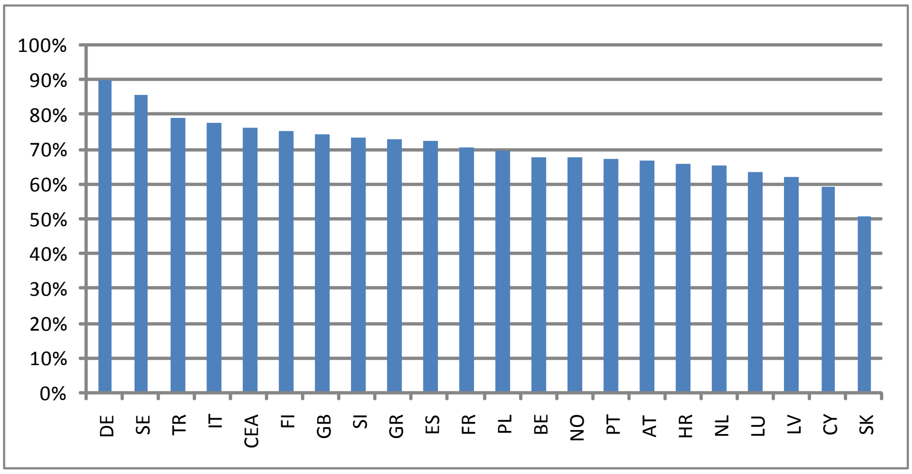
Graph 8 | Claims ratio in motor



4 See section IV.1 for more details on this issue.

The claims ratio shows some variation from country to country. It ranges from 86.7% in Germany to 53% in Latvia. Except for some new member states or non-EU states which show very low levels of claims ratio, most of the other countries show a claims ratio around 70%.

Graph 9 | Claims ratio by country (2006)



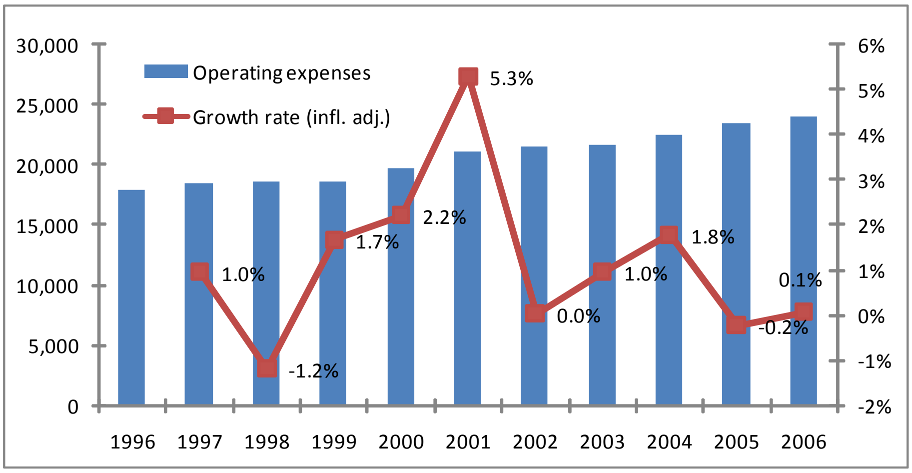
According to the partial figures available for both motor liability and damage, the 0.1% decrease in claims expenditure observed in 2006 and presented in II.1, conceals two different patterns in the two classes of business. The figures calculated for a sample of approximately 75% of the market show a decrease in claims expenditure in motor liability and an increase in damage.

II.1.c Operating expenses

High competition leads insurers to reduce their costs

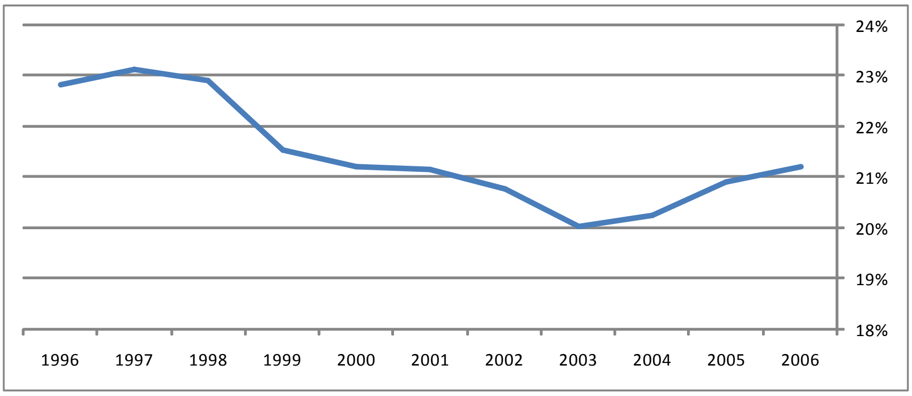
Operating expenses represent technical costs borne by insurers to manage the motor insurance class. They include administrative expenses and acquisition costs. After a steady rise between 1998 and 2001, followed by a steep decrease in 2002, the growth rate of operating expenses again began to increase, but at a slower speed than in 2001. The 2002 decrease is closely linked to the financially difficult year experienced by insurers and by the cost reduction measures taken at that time in order to restore profitability within companies. The year 2006 shows a decline in operating expenses which is closely related to the high competition level between insurers that oblige them to reduce all their costs in order to offer the best price to consumers.

Graph 10 | Operating expenses



The declining trend of the operating expenses to premium income ratio (see below) highlights the strong efforts made by insurers for almost a decade in order to reduce the share of the cost in the premiums. The slight increase observed in 2005 and 2006 does not reflect an increase of the absolute level of expenditure but a stabilisation in expenses (0.1% of growth) while premium income was decreasing (-1.1%).

Graph 11 | Expense ratio in motor

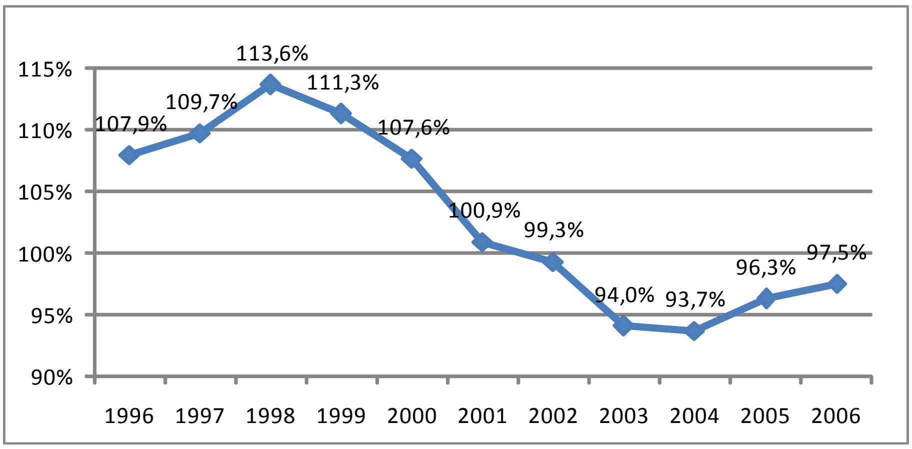


II.1.d Combined ratio

Premium income decreased more than claims expenditure and led to a rise in the combined ratio

The combined ratio, which comprises the sum of claims expenditure and operating expenses divided by premium income, provides a synthesis of the evolution described above in the form of a unique indicator. This ratio, which is essentially influenced by claims expenditure (operating expenses being relatively small) increased strongly up to 1998 reflecting the increase in claims and the large technical deficit incurred by motor insurers during these years. The following years have been marked by a better environment which might be related to the decrease in the number of accidents. Prices of motor insurance have not decreased immediately, due to the need for insurers to retrieve some room for manoeuvre. In 2002, for the first time, the ratio fell below 100%, allowing insurers to reduce their financial dependence on investment revenues. In both 2005 and 2006, the premium income decreased more than the claims expenditure, which led to a rise in the combined ratio. The upward and downward movement in the combined ratio reflects perfectly the underwriting cycle of the insurance industry over a period of approximately 9 years. The growth in the combined ratio observed in 2005 as well as in 2006 allow us to assume that the insurance sector is at the beginning of a new business cycle.

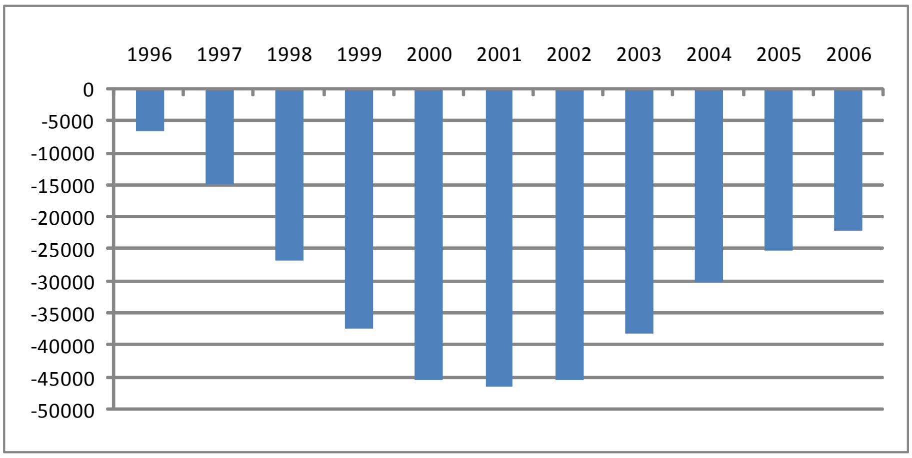
Graph 12 | Combined ratio, 1996 - 2006



Although the underwriting result has been improving since 1999, it has to be emphasised that this result has only been positive since 2002. The cumulative underwriting results reflect the sum of the negative and positive underwriting results that have been recorded by European motor insurers since 1996 (the beginning of the business cycle). Despite the improvement in recent years, the figure is still strongly negative with a cumulative result of € –22 billion which has been borne by insurers. This means that the recent positive underwriting results have not yet compensated for the negative ones recorded in previous years. This critical situation explains the lesser decrease in premiums compared to the decrease in claims expenditure, and therefore why the current level of the combined ratio is below 100%.

Cumulative underwriting results since 1996 show a negative result of €22bn

Graph 13 | Cumulative underwriting result since 1996 (euro million)



Box 1: Business cycle in the insurance sector

The cyclical nature of the insurance industry is a well recognised fact in traditional literature. The cycle refers to the upward and downward movement in insurance prices and the combined ratio. The cycle typically runs over a period of 6 to 9 years. Several theories (relating to the cost of equity capital, claims shocks, investment income ...) seek to explain the underwriting cycle of the insurance market; however, the most widespread interpretation explains this cycle as being originated by competition. In the words of Cummins and Outreville5 "The typical explanation is that the insurance industry causes the cycle more or less on its own, through periods of destructive competition followed by cutbacks in supply".

5 "An international analysis of underwriting cycles in property-liability insurance", Journal of Risk and Insurance (1987), 54(2): 246-262.

II.2 Breakdown of the costs borne by insurers in motor liability in 2005

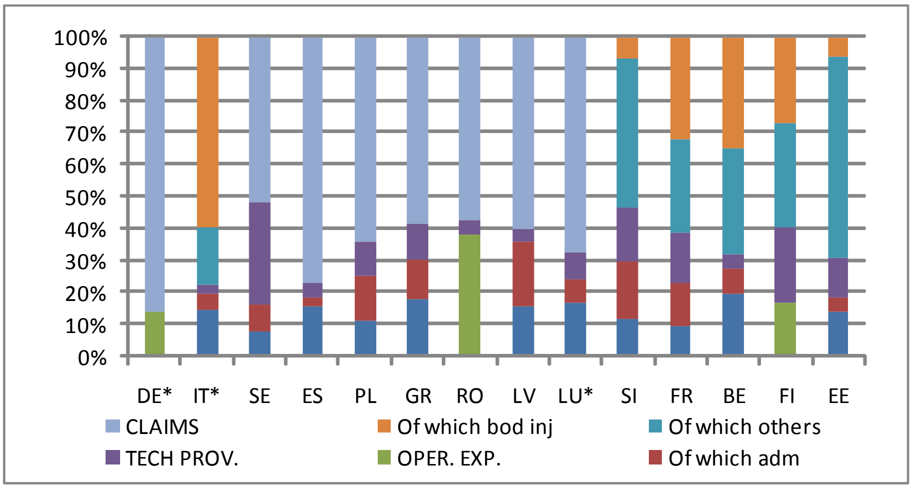
Cost in Motor Third Party Liability includes claims, varation in technical provisions and operating expenses

In motor liability, three types of costs can be distinguished:

- The claims costs, which can be broken down into costs related to bodily injuries and other costs (mainly repairs and spare parts);
- The variation in technical provisions, for which we have not been able to distinguish bodily injuries from other costs;
- The operating expenses within which we can distinguish: (i) the distribution costs (relating to brokerage, and other distribution organisations) and (ii) the administrative expenses.

As data are not available for all the European countries, our analysis will concentrate on a sample of countries and on case studies according to data availability. This sample allows us to present an overview of the different realities across Europe: Northern (SE, FI) and Southern (IT, ES, GR) European countries as well as Eastern (RO, PL, LV, EE) and Western (DE, BE, FR) countries. The sample also allows differentiation of the cost structures between countries with different types of distribution channels or between developing markets and more mature markets.

Graph 14 | Breakdown of costs borne by insurer in motor liability



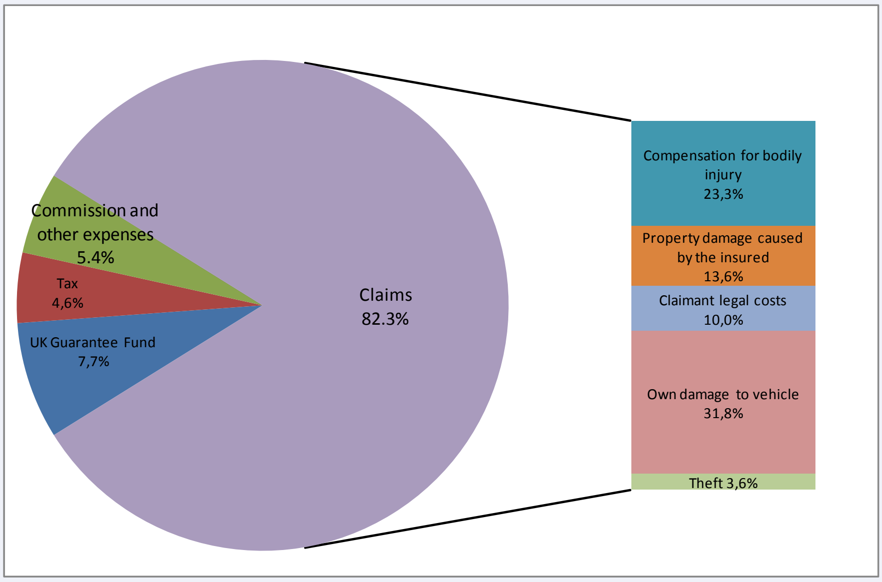
Notes:

- *For Italy, the breakdown of the claims is a rough estimate.*
- *For Germany, the claims expenditure includes the technical provisions;*
- *For Luxembourg, the figures correspond to 2004 data.*

Case study 1: Breakdown of the average insurance premium for private cars in the UK

In the UK, the average premium (liability and damage combined) for private cars was about €570 in 2005. The pie chart below shows the breakdown of the costs associated with this average premium. The bar on the right gives the different components of the claims expenditure (illustrated in purple on the pie chart).

Graph 15 | Breakdown of the average premium for private cars in the UK



Source: ABI

At more than 80%, the claims expenditure constitutes by far the greatest element of the price in the UK. Within this claims expenditure, the largest part (about one third) is spent on own damage to vehicle, followed by the compensation for bodily injury (about one quarter).

N.B. It should be noted that this pie chart is not directly comparable to the breakdown of costs presented here before, as its associated figures entail both liability and damage.

II.2.a Claims costs and technical provisions

The claims expenses and technical provisions which represent the entire sum paid and to be paid to victims of road accidents represent between 65% and 85% of the total cost borne by insurers. The highest levels are recorded in Western countries such as Italy and Sweden.

Claims costs

The distinction between claims with bodily injuries and claims involving other costs (mainly car repairs) allows one to see that bodily injuries represent about half of the claims cost in France, Belgium and Finland and around 70% in Italy. The low indemnities offered in Eastern countries allow these countries to limit the costs resulting from bodily injuries to a lower level.

Bodily injuries represent about half of the claims cost in France, Belgium and Finland and around 70% in Italy

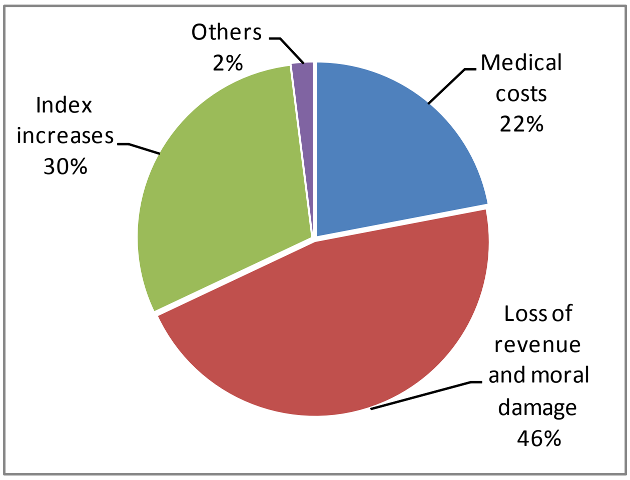
Medical and hospitalisation expenses represent no more than one quarter of the cost of a claim with bodily injuries in France and in Finland

A further analysis (see the pie charts below) highlights the fact that medical and hospitalisation expenses represent no more than one quarter of the cost of a claim with bodily injuries in France and in Finland. The major costs (+/- 70%) for insurers in case of bodily injury relate to indemnities paid to victims of accidents. These indemnities cover the loss of revenue which has to be indexed in the case of an annuity but also the moral loss (for extreme pain and suffering, aesthetic loss, moral damage, etc...).

The tendency to increase indemnities to victims is increasingly impacting on claims expenditure

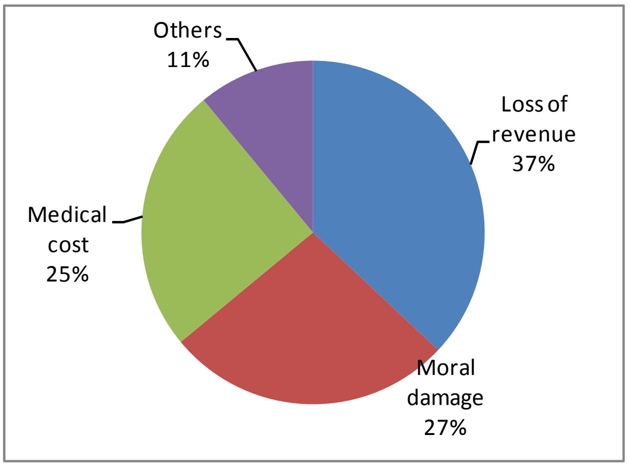
It should be stressed that the tendency on several markets to increase indemnities offered to victims where there is a court case is increasingly impacting on insurers' claims expenditure and is expected torequire an adjustment in the premium level if the trend is confirmed in the future.

Graph 16 | Cost of bodily injuries in France



Source: FFSA

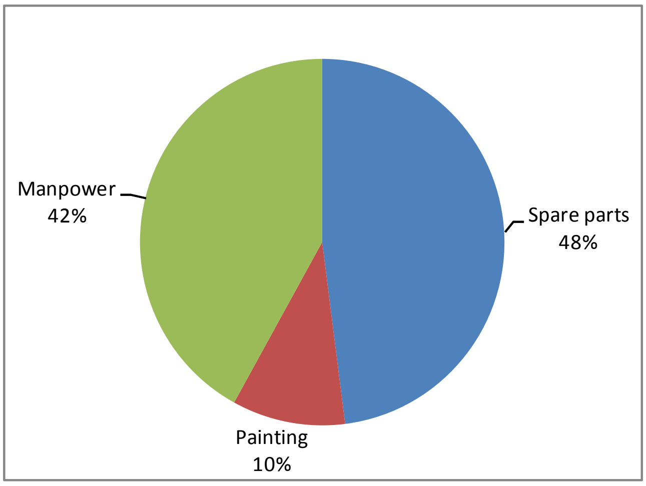
Graph 17 | Cost of bodily injuries in Finland



Source: Insurance Supervisory Authority

As far as the breakdown of the cost of car repairs paid by insurers in the framework of liability contracts is concerned, the pie chart below shows that in France, spare parts and the manpower (salaries) are the two main contributors. The strong rise in the price of car maintenance and repairs (including essentially salaries for the manpower) observed in Europe (+22% between 2000 and 2005) has been adding to the costs borne by insurers and may also lead to a rise in the price of motor insurance.

Graph 18 | Composition of the price of motor repairs paid by motor liability insurers in France in 2006



Source: FFSA

Technical provisions

The differences from country to country regarding the technical provisions may be related to the type of indemnity. In the case of large indemnities which are paid in the form of an annuity, insurance companies often need to cover the risk related to indexation of these annuities. Such a risk may be reflected in the share of technical provisions. Some other factors such as the speed of claims settlement, the number of court cases, etc... may also affect the share of technical provisions in the total cost borne by insurers.

II.2.b Operating expenses

The share of operating expenses within the total cost borne by insurers varies from less than 20% in countries like Sweden and Italy to almost 40% in Romania.

Operating expenses within the total cost borne by insurers vary from less than 20% to almost 40%

The high operating costs observed in Eastern countries relates on the one hand to the growing motor market and the replacement of cars on these markets, which impose extra management costs, and on the other hand to the implementation of several EU directives. Moreover, most of the companies in Eastern countries being relatively new due to the recent liberalisation, they are still supporting the establishment costs (advertisement, investment, training, ...) which in Western countries are generally already amortised.

Looking ahead, it is expected that along with the economic development of the Eastern countries as well as the rising competition between insurers, the share of operating expenses should decline. On the other hand, the share of claims cost should increase, since the value of cars and indemnities will continue to grow quickly in the future.

Administrative expenses

More specifically, the high share of operating expenses is driven by the rather significant burden of administrative expenses in Eastern countries. Administrative expenses generally appear to be much lower in Western countries such as Spain or Italy which are more mature markets, and where competition has pushed the cost downwards. Administrative expenses also include the management of claims and premium administration which have been growing in Eastern Europe, whereas these expenses tend to remain stable in Western Europe.

Distribution costs

Distribution costs relate to the acquisition costs and depend on the distribution channel

Distribution costs include all the costs relating to the sales and management of new contracts and covers. These costs relate in actual fact to the acquisition costs (e.g. fee paid to the broker or to the agent, salary paid to the employee selling the insurance product, cost of a call centre for telesales, etc...) and depend on the distribution channel used.

Distribution costs reflect among others the preference of consumers for certain distribution channels

The consumer's choice of one channel or another implies a different level of service. For instance, choosing a broker or an agent will help consumers in designing their policy adequately to meet their personal needs, will allow them to have a contact person for all their relations with the insurance company and will enable them to receive tailored services. At the opposite extreme, choosing to buy a policy through the internet implies a limited choice and some extra effort from the insured that may be offset by lower distribution costs. The added value of each of these channels is therefore very different, and consequently the distribution costs vary from country to country according to the consumers' preferences. For instance, in Belgium and in Italy where the share of intermediaries (brokers, agents) is very high (73% and around 93% respectively), the share of the distribution cost appears higher than in France where intermediaries have a lower market share (approximately 44%).

III. Price of motor insurance

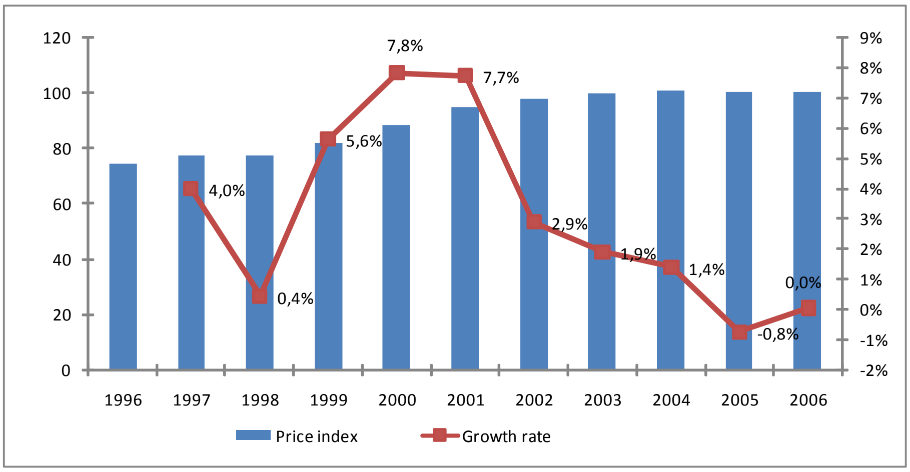
III.1 Evolution of prices

Transport insurance price index

The price index of transport insurance, provided by Eurostat, offers a perfect illustration of the recent competition between insurers on the motor insurance market. After several years of weak and constantly slowing growth, the index declined for the first time in 2005 (-0.8%). In 2006, no change occurred in the price index as compared to 2005.

The transport insurance price index remained stable in 2006 after a 0.8% decrease in 2005

Graph 19 | Price index of transport insurance

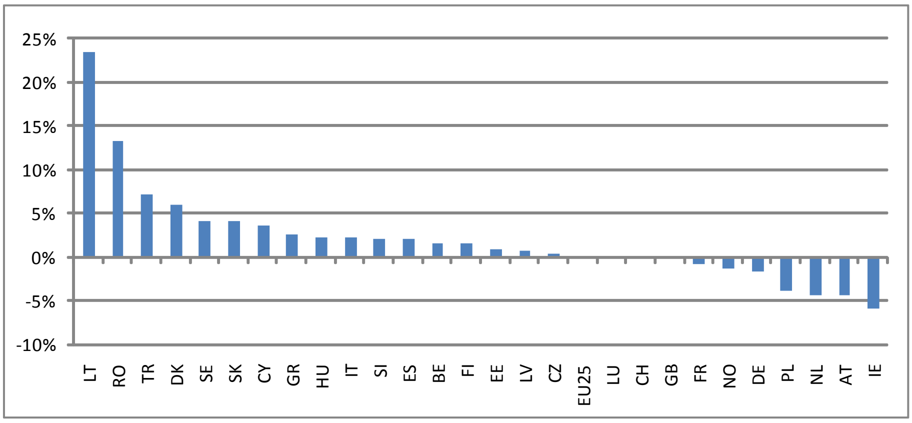


Source: Eurostat

The growth rates between 2005 and 2006 of the transport insurance price index show contrasting situations across the different countries. The growth rate in 2006 was below 5% in all countries except Lithuania, Romania, Turkey and Denmark. At the other end of the ranking, most of the largest Western European countries recorded a decrease in the price of transport insurance. The largest decrease was recorded in Ireland, -5.9% in 2006, and follows a 7.7% decrease in 2005. As previously stated, the lowest growth rates are found on the more mature and saturated markets which have a long experience of motor insurance and where economic growth is lower than in the new member states.

Growth in the transport insurance price index appears higher in Eastern countries

Graph 20 | Variation in the transport insurance price index between 2005 and 2006



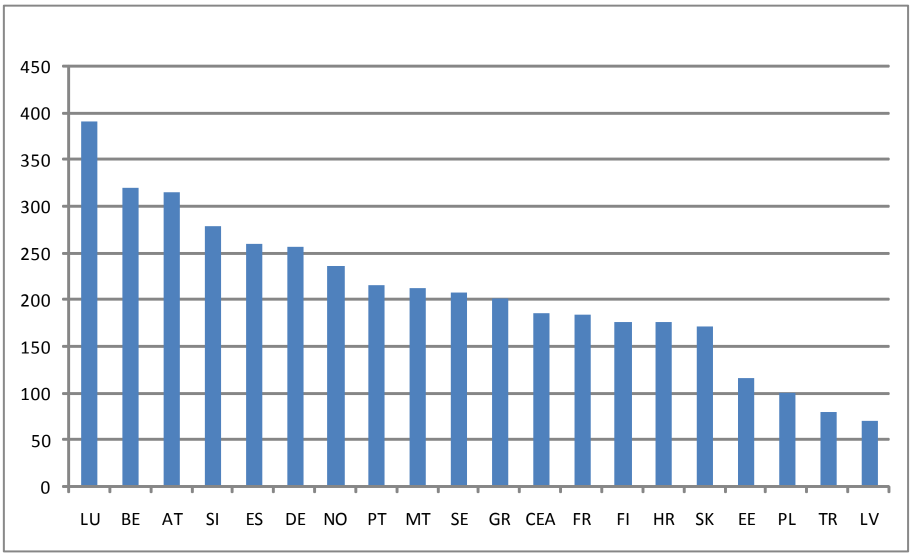
Source: Eurostat

Motor Third Party Liability premium per insured

The average premium per insured in Europe is below €200

The average premium level can be calculated via the ratio between the premium income and the number of insureds. This price indicator also shows large variations across European countries. In Luxembourg, the premium level is two times greater than the sample average, while the level observed in Latvia corresponds to less than 40% of the sample average. More generally, the highest levels of premium are encountered in Western countries while the lowest ones are seen in the Eastern countries.

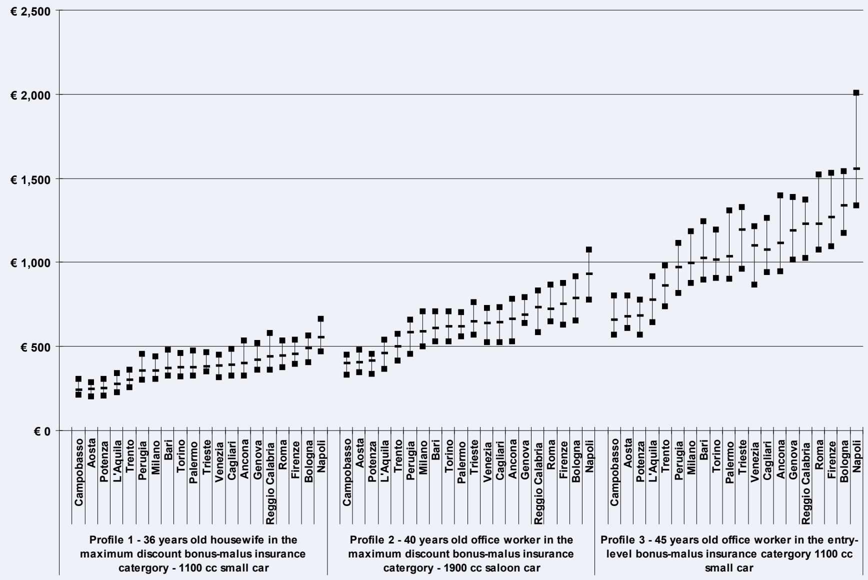
Graph 21 | Premium per insured in motor vehicle liability in euros - 2005



The price level of motor insurance not only varies from country to country but also from region to region in a single country, and even from one municipality to another. This fact is perfectly illustrated by the following two case studies.

Case study 2: Italy

The graph below shows that the prices in motor liability are systematically highest in the Napoli region and lowest in Campobasso. In addition, the vertical lines demonstrate the great variation in prices within each region, especially for the third profile: a 45-year old office worker.



Source: ANIA

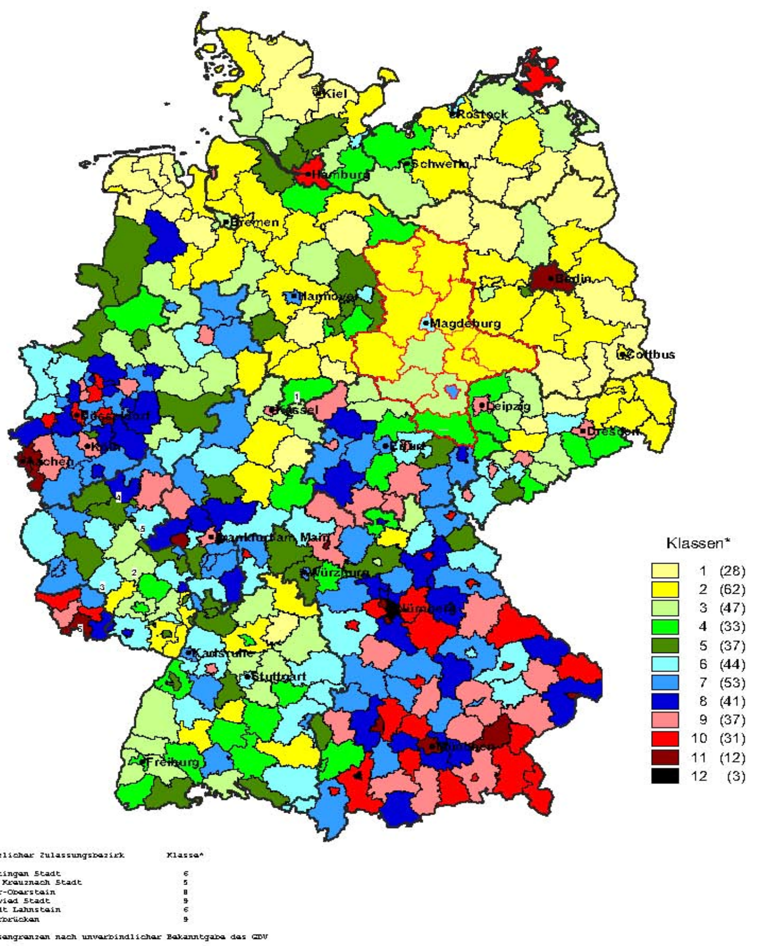
Case study 3: Germany

The map below allows the regional differences observed in Germany to be illustrated in terms of claims costs for private cars.

On the basis of collected data broken down by region, an index of motor third party liability insurance is calculated for each registration district. Then, according to the claims index level, these registration districts are subdivided into twelve classes (the twelve different colours on the map) established by statistical means. The darker the colour, the higher the claims index and thus the higher the price.

Regional statistics for passenger

Motor Third Party liability



Source: GDV

The factors that explain these differences include:

- the traffic density, which is far higher in urban areas (e.g. Ruhr District, Berlin, Munich,...);
- the economic development (e.g. the claims index is lower in Eastern Germany);
- the landscape (e.g. the claims index is higher in the southern mountainous region than in the North of Germany).

If the disparities between Eastern and Western countries largely find their origin in the differences of economic development between these markets, the heterogeneity of the average premium figures can be explained by many other factors such as the traffic conditions, the cost and compensation levels, consumer habits, national legislation[6]. All these country-specific features do indeed have an impact on the claims frequency and the average claims cost which are the two main determinants that fix the premium level.

The average price in Motor third party liability shows wide variations from country to country due to local specificities

Three main conclusions may be drawn from this analysis of the evolution and level of motor insurance premiums. First, the competition in mature markets has led to a decrease in prices on several markets, or at least a very low growth rate in premiums. Second, the new member states which have the lowest average premium levels also have the highest premium increases, demonstrating a catching-up effect in these markets which is closely linked to the expanding economic environment and to improvements in living standards. Third, the levels of premium in motor third party liability vary significantly from country to country but also from region to region and reflect the influence of local factor in the price setting.

III.2 How are motor insurance premiums set?

Insurers set premiums according to their analysis of the likelihood that the policyholder will make a claim and the likely cost of such claims. The price paid by the policyholder is also affected by different national taxes and levies and other country-specific legislation.

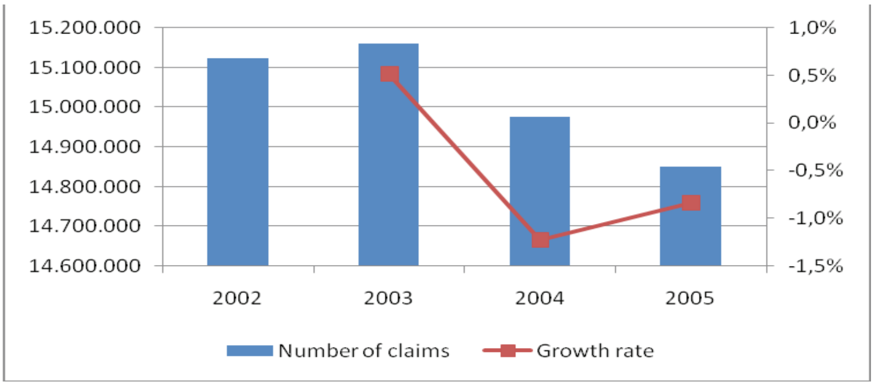
III.2.a Intrinsic factors

Number of accidents and claims frequency

According to the figures available for a sample of countries representing approximately 71% of the European motor insurance market, the number of accidents declined in 2004 and 2005 after a rise in 2003. The decrease was the sharpest in 2004 (-1.2%) and in 2005, the number of claims fell by 0.8%.

The number of accidents declined in 2004 and 2005 after a rise in 2003

Graph 22 | Number of claims in Motor liability



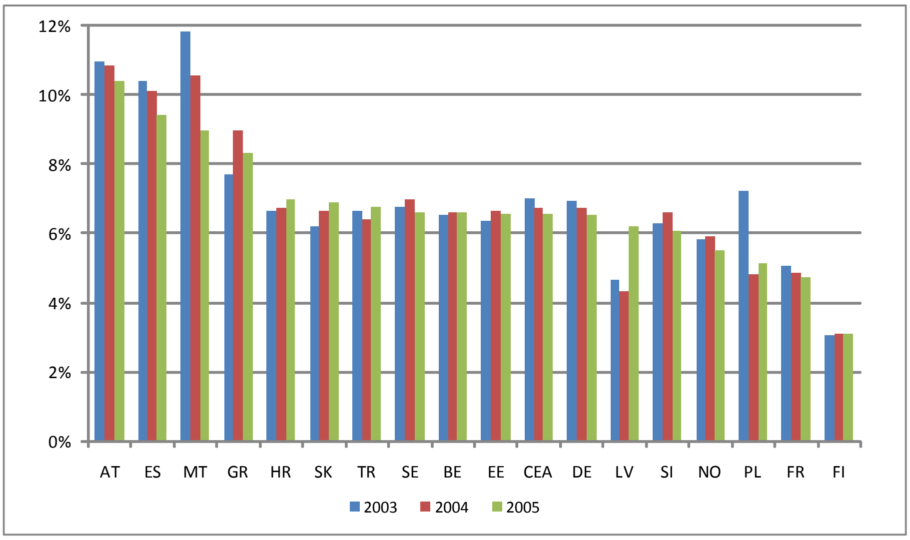
The claims frequency constitutes the ratio between the number of claims and the number of vehicles insured. This ratio, which has only been calculated for

6 These factors will be presented more into detail in section IV.

The claims frequency decreased from 7% in 2003 to 6.6% in 2005

a sample which represents approximately 55% of the European market and for motor liability contracts, confirms the preceding evaluation. It shows a slight decrease in the claims frequency from 7% in 2003 to 6.6% in 2005. This decrease has enabled insurers to decrease the level of their premiums on many markets despite the rise observed in the cost of the average claim.

Graph 23 | Claims frequency in motor liability

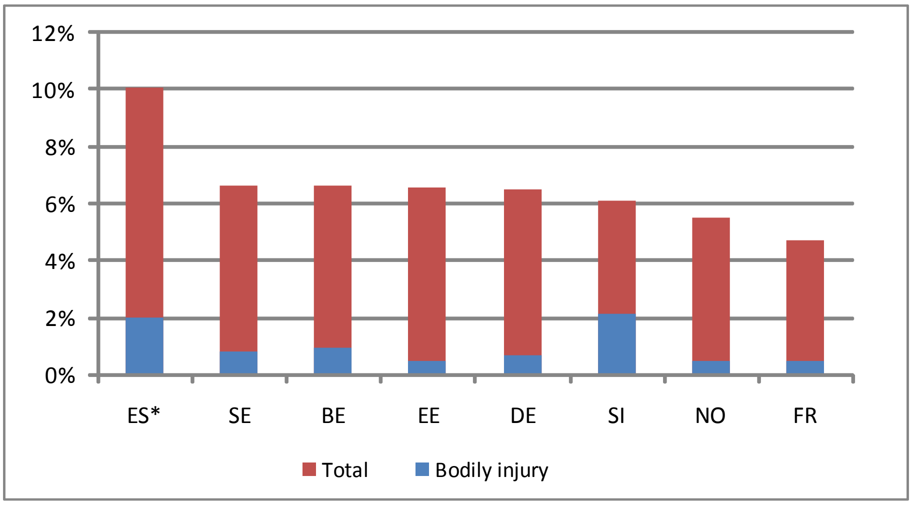


The decrease in the claims frequency is observed in most Western countries while the Eastern countries display more heterogeneity in the evolution of this indicator.

The claims frequency highlights different situations in terms of evolution but also in terms of level

The claims frequency does not only highlight different situations in terms of evolution but also in terms of the frequency level even within Western countries. At one extremity of the scale, Austria and Spain show a rate close to 10% while at the opposite end, France and Finland show a level below 5% and even close to 3% for Finland.

Graph 24 | Share of bodily injuries in the claims frequency - 2005



**2004*

The share of bodily injuries in the claims frequency remains limited

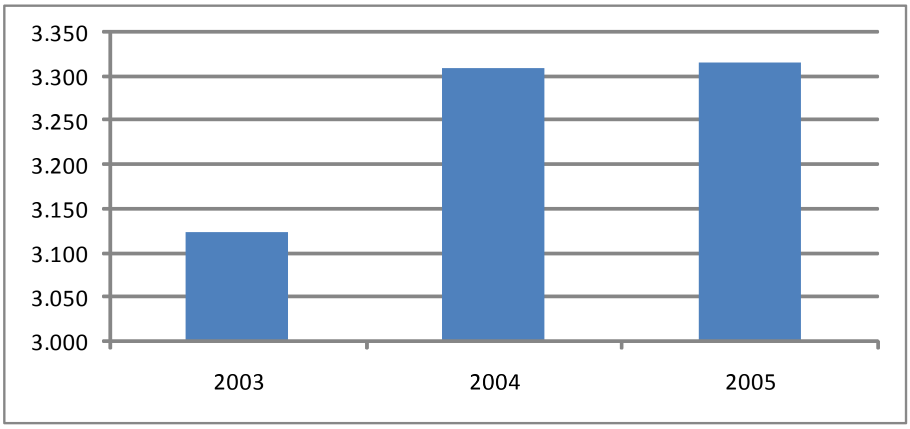
The share of bodily injuries in the claims frequency remains limited in most countries despite some important differences between markets. Fortunately, this means that most accidents in motor liability only involve damage to vehicles.

Average claim cost

The average cost of a claim in motor liability, estimated on the basis of a sample which represents approximately 65% of the European market, has increased by approximately 0.2% in 2005 to reach €3,300. The average cost had already risen by 5.9% in 2004. It is then clearly the decrease in the number of claims that has allowed insurers to stabilise the claims expenditure in recent years.

The average claim cost in motor liability reached €3,300 in 2005

Graph 25 | Average claim cost in moror liability



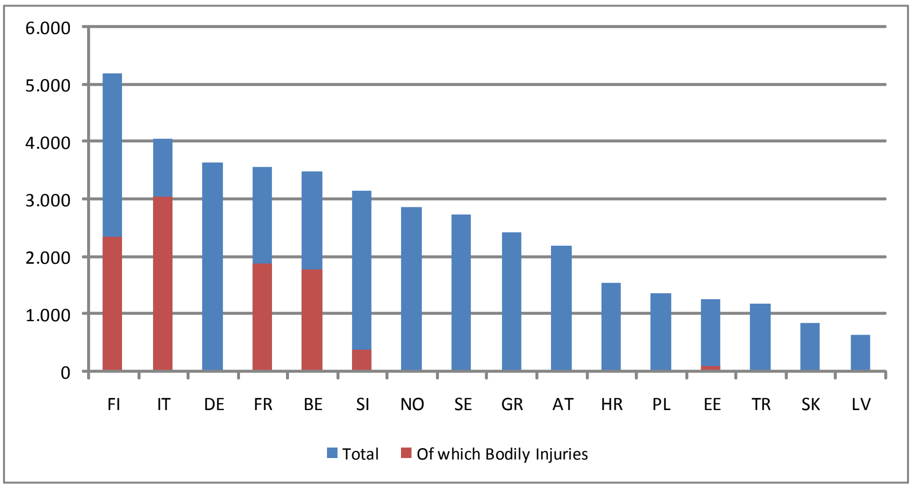
The average cost of a claim is approximately €3,300 in Europe, but this figure varies greatly across countries. It is above €5,000 in Finland, above €4,000 in Italy while it is less than €1,000 in Latvia and Slovakia. More generally, it can be stated that the level is lower in Eastern Europe than in Western Europe but that the highest growth rates are found in the Eastern countries. It reflects a catching-up effect in these countries that will certainly continue in the future along with their economic development and an increase in car values.

The average cost of a claim varies greatly across countries

The share of bodily injury in the average claims cost (which is only available for 6 countries) shows a level of approximately 75% in Italy, 50% in Finland, France and Belgium and much lower values in the new member states, such as Slovenia and Estonia. It can be expected that this ratio will grow in these latter countries.

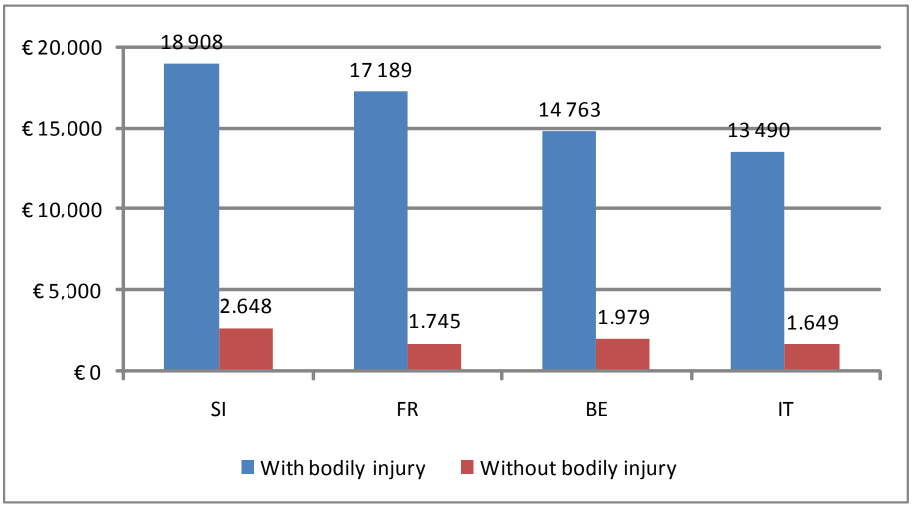
The share of bodily injury in the average claim cost is higher than 50% in many Western countries

Graph 26 | Average expenditure per claim in motor liability, 2005



Whereas the share of bodily injury in the average claim cost is about 50%, the average cost of a claim with bodily injury is about 10 times higher than a claim without bodily injury. This contrast between the two analyses evidently originates in the difference in the claims frequency.

Graph 27 | Average claim cost - 2005



Note: This graph does not take into account the technical provisions.

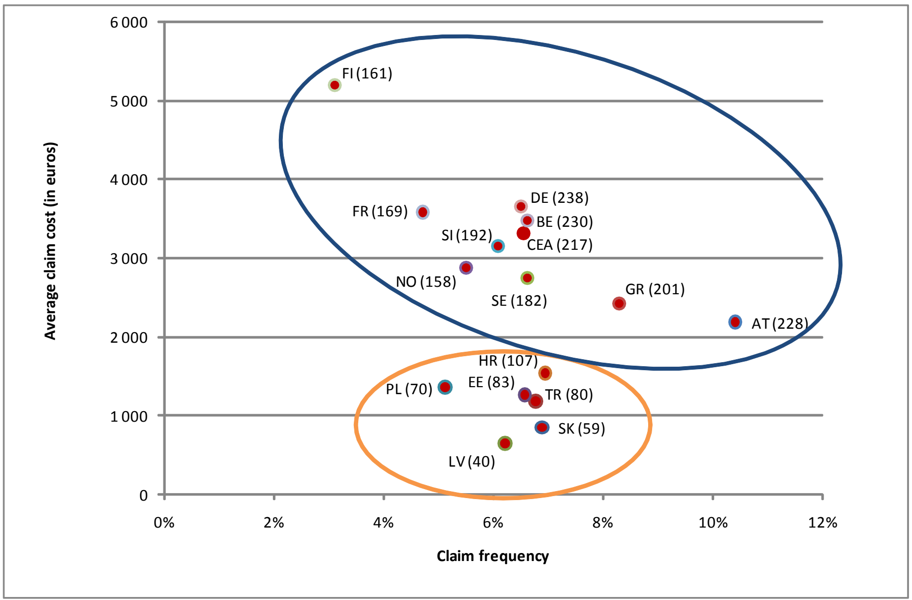
Pure premium

The pure premium corresponds to the cost of the insurance per policyholder if there were no operating expenses no remuneration for the shareholder capital and no investment income

Multiplying the average claim cost by the claims frequency allows one to determine the pure premium which corresponds to the cost of the insurance per policyholder if there were no operating expenses (administrative and acquisition costs), no remuneration for the shareholder capital and no investment income. Equal levels of pure premium may therefore conceal different claims frequencies and average claims costs. Therefore a decrease in one of the two factors (for instance the claims frequency) in two countries or in two companies may impact differently on the pure premium, given the difference of level in the other factor.

For example (see the graph below), Finland with a pure premium of €161 is very close to the premium level of France, but on the one hand Finland shows a very high average cost with a low claims frequency while on the other hand, France shows a higher frequency with a far lower average claim cost.

Graph 28 | Pure premium, claims frequency and average claim cost in 2005



Note: The figures between brackets indicate the level of pure premium in euros.

Eastern countries form a homogeneous cluster which seems to gradually converge towards Western European standards

As the scatter diagram above shows, a wide range of situations can be observed across Europe. The Eastern countries form a homogeneous cluster (orange ellipse) which seems to gradually converge towards Western European standards (blue ellipse).

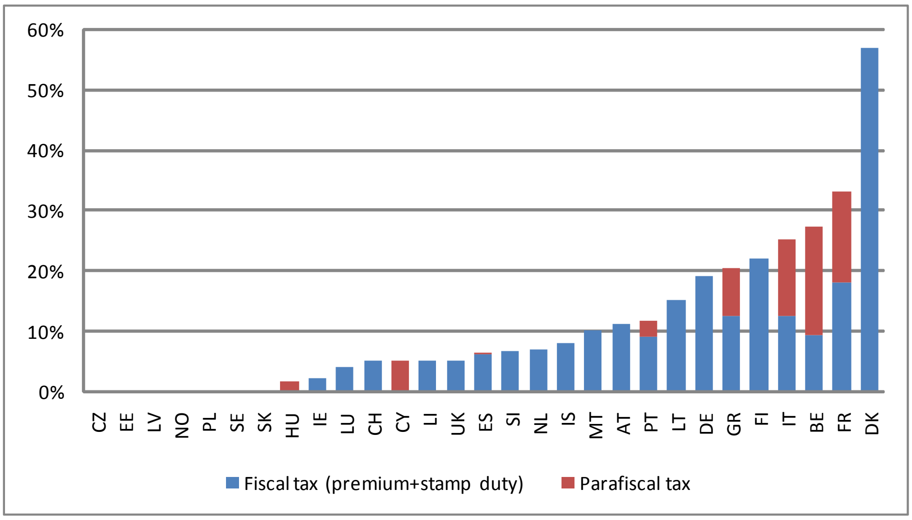
III.2.b External factors

Taxation

A significant part of the difference in the price paid by insureds in Europe comes from taxation

The average price levels so far displayed are presented after tax and may seem lower than the prices effectively paid by insureds. If the heterogeneity of the average premium figures can largely be explained by the different risk situations and indemnity levels in the various European markets, a significant part of the difference can also arise from an extraneous factor: the fiscal regime applicable to insurance premiums. As the graph below shows, the taxation rate reaches almost 60% in Denmark while several countries such as the Czech republic, Estonia, Latvia and Sweden do not impose any tax on motor insurance premiums. These taxes frequently represent the sum of several contributions to different bodies. For instance in Portugal, the level of tax reaches 12.75% and is distributed as follows: Stamp duty: 9%; emergency fund: 1%; Portuguese Insurance Institute: 0.25% and Motor Guarantee Fund: 2.5%. An extra tax of 13% for the Fire Brigade is added to the 12.75% for the transport of dangerous goods, including the insurance of vehicles specifically used for transporting this type of goods.

Graph 29 | Taxation of motor liability in Europe



Source: CEA ("Indirect Taxation on Insurance Contracts in Europe", 2007)

National legislation

National legislations impose different covers from state to state

The content of motor third party liability insurance policies is defined by the legislation of the country of registration of the vehicle.

- The minimum amount of coverage and the general liability rules can vary significantly from country to country.
- The rule of the vulnerable road user is in application in several countries (e.g. Belgium, France) imposing on the insurers coverage for the bodily injuries of any vulnerable road user (pedestrian, bicycle, car passenger) involved in a road accident without regard for who is responsible for the accident. Such a rule goes beyond the common general liability rules and therefore increases the cost borne by the insurers in the countries where this rule is in application.
- Unlimited cover for third party liability is a clause which is imposed by the state in several European countries. In these countries, motor liability covers have to be unlimited. This kind of cover is very difficult for insurers to offer and obliges them to take extra risks that they are not readily willing to take. On the reinsurance market, such risks are expensive to cover, reinsurers also being reluctant to cover the higher part of the risk.

IV. Key factors influencing claims frequency and cost

IV.1 Claims frequency

Road safety

As already stated, the decline in the claims frequency can be largely explained by the improvement in road safety, and notably by the commitment made by European countries to reduce by 50% the number of deaths on the roads between 2001 and 2010 (see box 2 below).

Box 2: Reducing the number of road deaths in Europe

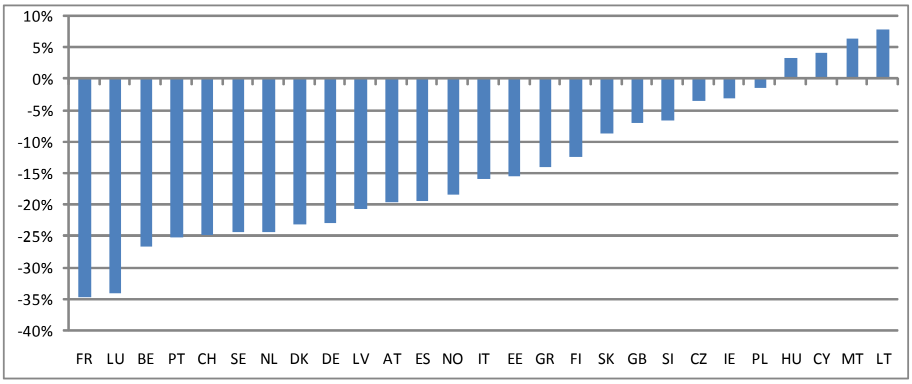
With a view to reducing the number of road deaths, national governments have taken several types of action, such as increasing the number of radars and alcohol controls, better law enforcement, the implementation of prevention and awareness-raising campaigns, the upgrading of infrastructure, better information for the citizen on the consequences of road accidents, …

In line with this, the European Commission adopted in 2006 two new proposals for directives. The first directive aims at improving safety on major roads, i.e. the trans-European transport network (TEN-T) through infrastructure measures and better engineering. The second directive provides for existing heavy vehicles to be equipped with “blind spot mirrors” in order to reduce the number of accidents involving cyclists and motorcyclists in particular[7].

The number of road deaths has declined in most European countries

As the graph below shows, the measures taken have proven to be successful as the number of road deaths has declined in most European countries. The largest decrease is observed in France and Luxembourg, which both have a reduction in excess of 30%. The reductions are unfortunately not yet as significant in each country. Countries such as Poland, Ireland, Slovenia, the United Kingdom or Slovakia recorded a reduction in the number of road deaths but their decrease is below 10%. On the other hand, some other states such as Lithuania, Malta, Cyprus, the Czech Republic and Hungary have recorded the opposite trend, with an increase in the number of road deaths.

Graph 30 | Reduction in road deaths 2001-2005 (in %)



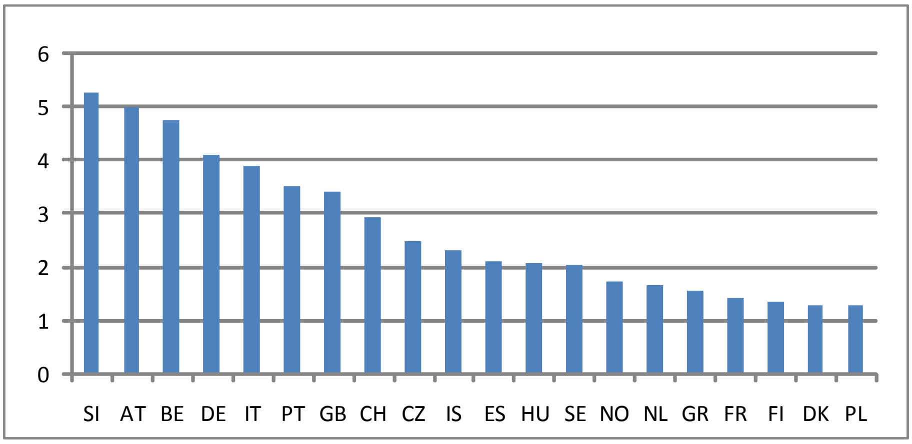
Sources: European Transport Safety Council (+CARE and national data)

7 European Commission, Press release on “New directives for safer roads in the EU”, 5 October 2006.

The number of bodily injuries per 1,000 inhabitants ranges from 1 to 5 according to the country

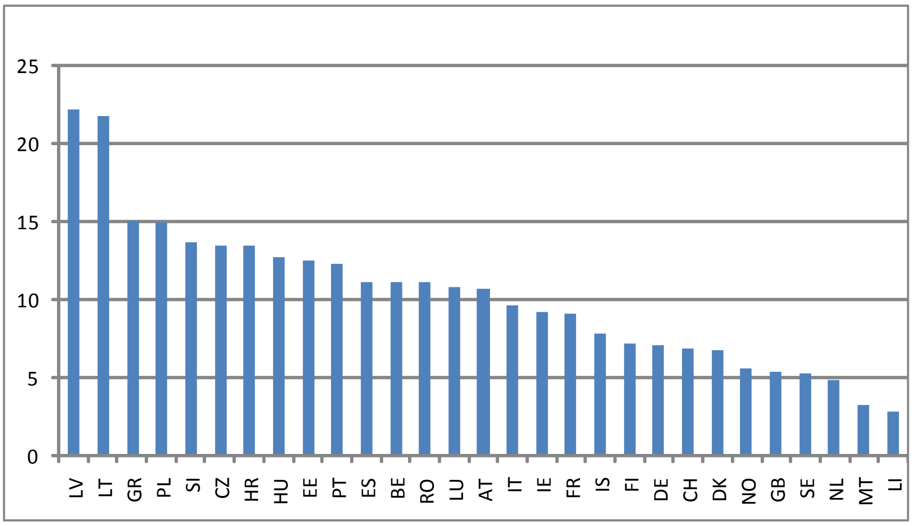
The disparities between European countries in the claims frequency are also highlighted by several indicators such as the number of bodily injuries per 1,000 inhabitants, for which the rate ranges from 1 to 5 according to the country or by the number of road fatalities per 100,000 inhabitants which on average appears to be much higher in Eastern countries than in Western countries. The road safety campaigns launched in several countries have proven to be successful in countries such as France or the Netherlands.

Graph 31 | Number of bodily injuries per 1,000 inhabitants



Source: IRTAD (2005)

Graph 32 | Number of fatalities per 100,000 inhabitants in 2004



Source: OECD/ECMT

Traffic conditions

Traffic conditions vary significantly from one country to another

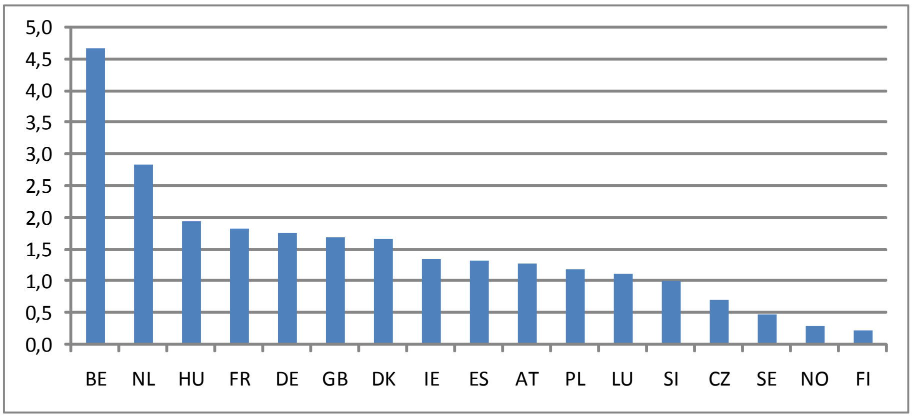
The traffic conditions, which also have an impact on the number of claims, can vary greatly from one country to another. They depend in fact on a number of country-specific features.

- *Natural environment*:

For instance, Northern and Southern Europe do not experience the same weather conditions; flat countries are more likely to have more cyclists than mountainous countries ...

- *Road density*

Graph 33 | Kilometres of road / country area (km²)



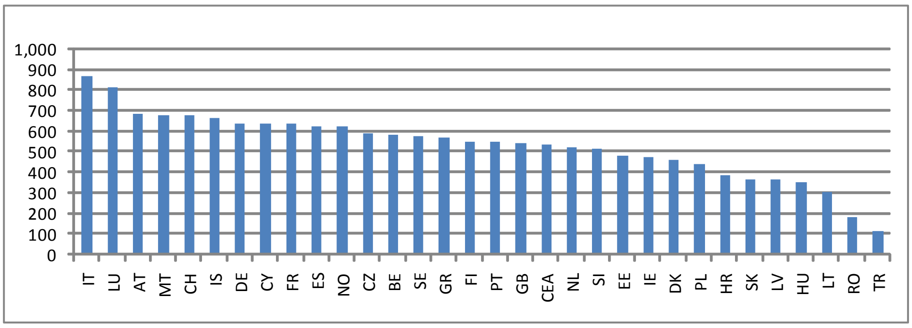
The road density is much higher in Belgium and to a lesser extent the Netherlands (4.7 km/km² and 2.8 km/km² respectively) than in the sample average (1.7 km/km²). At the opposite extreme, the Scandinavian countries are very much less developed in terms of road kilometres, due to the lower level of population density.

On average the number of vehicules per inhabitant stands at 535

- *Vehicle density*

The number of vehicles per inhabitant also varies greatly from country to country. This indicator ranges from 114 in Turkey to 867 vehicles per 1,000 inhabitants in Italy in 2004. The CEA average stands at 535 against 496 in 2000, representing a growth of 8%. The level is nevertheless below the rate of 768 vehicles per 1,000 inhabitants observed in the United States, which is above most of the European countries[8].

Graph 34 | Vehicles per 1000 inhabitants in 2004

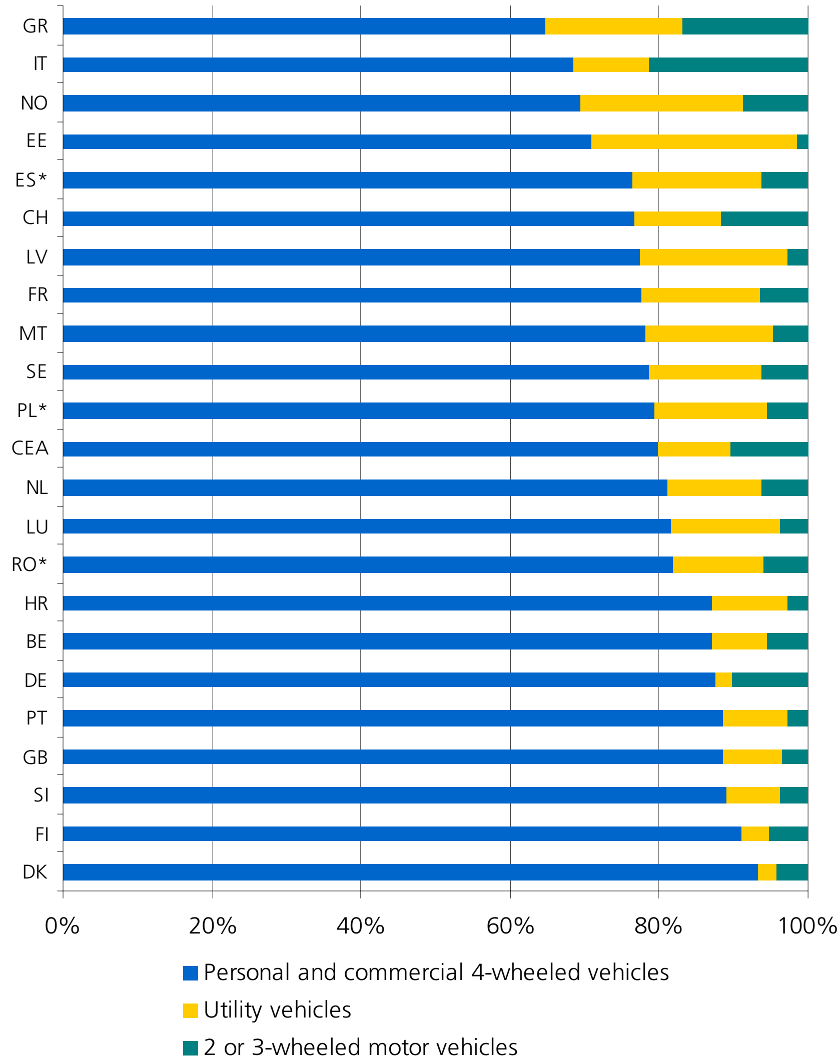


Source: OECD

Though major differences between countries may be related to their economic development, some other differences seem to be more closely related to the characteristics of the country. The high level observed in Italy, for instance, is among other things due to the high proportion of motorcycles (21%), while in Luxembourg the high number of company cars which are used by non-residents can in part explain the high ratio (see the graph below).

8 The indicator used in this study may be higher than similar indicators provided by other international institutions due to the fact that it takes into account not only passenger vehicles but also utility vehicles and motorcycles. This is not always the case in other studies.

Graph 35 | Vehicle categories in 2005



- Driving habits

The respect of the driving code differs from country to country

Even if the national policy regarding the driving code enforcement (speed control, alcohol testing, automatic radar, etc...) has created changes in driver behaviour and has improved road safety, the rules are still not wholly respected in some countries. The following two tables and the graph display the influence of drinking in fatal crashes, the respect for speed limits in European countries and the wearing rate for seatbelts.

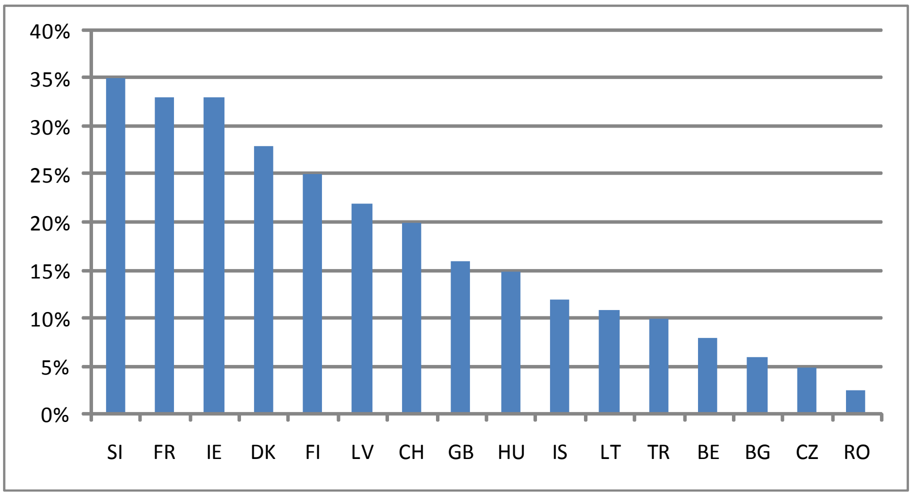
Table 1 | Proportion of drivers of passenger cars above the speed limits on different types of roads in a selection of OECD/ECMT countries in 2003

	Motorways		Rural Roads		Urban Roads	
	Limit	% above the limit	Limit	% above the limit	Limit	% above the limit
Austria	130 km/h	23%	100 km/h	18%	50 km/h	51%
					30 km/h	78%
Denmark	110 km/h	56%	80 km/h	61%	50 km/h	55%
	130 km/h	18%				
Iceland	90 km/h	80%	90 km/h	77%		
Ireland	70 mph	23%	60 mph	8%	40 mph (arterial rd)	75%
					30 mph (arterial rd)	86%
					30 mph (local str.)	36%
Lithuania		42%		47%		
Netherlands	100 km/h	45%	80 km/h	45%	50 km/h (arterial rd)	73%
	120 km/h	40%			50 km/h (local str.)	+/- 45%
Poland (2005)				57%	80 km/h (arterial rd)	81%
Portugal	120 km/h	46%	90 km/h	55%	50 km/h (collector streets)	50%
						70%
Sweden	110 km/h	68%	30 to 110 km/h	58%*		
Switzerland	120 km/h	38%	80 km/h	24%	50 km/h (arterial rd)	21%
United Kingdom	70 mph	57%	60 mph	9%	40 mph (arterial rd)	73%
					30 mph (local str.)	74%

**All state roads*

Source: OECT/ECMT

Graph 36 | Drink driving as a factor in fatal crashes (2002, 2003 or 2004 data)



Note: Fatal crashes, where at least one of the parties in the collision has a blood alcohol content above the legal limit.

Source: OECD Country report on road safety performance

Table 2 | Seatbelt in front seats and rear seats and wearing rates as of 2006

Country	Front seats	Rear seats	Wearing rate (estimation - 2004 or 2003)
Austria	Yes	Yes	General: 76%
Belgium	Yes	Yes	Driver only: 51 - 77%
Bulgaria	Yes	Yes	
Czech Republic	Yes	Yes	General: 56%;
			Front seats: 61%
			Rear seats: 13%
Denmark	Yes	Yes	Around 90%
Finland	Yes	Yes	In front seats: around 90%
France	Yes	Yes	Front seats:97%
			Rear seats: 74%
Germany	Yes	Yes	Front seats: 94 -95%
			Rear seats: 90%
Greece	Yes	Yes	
Hungary	Yes	Yes	General: 58%
Iceland	Yes	Yes	
Ireland	Yes	Yes	Front seats: 84%
			Rear seats: 46%
Italy	Yes	Yes	
Latvia	Yes	Yes	In 2002: 62%
Lithuania	Yes	Yes	In 2004: around 60%
Malta	Yes	Yes, since 2004	Front seats: 90 - 99%
			Rear seats: 20-43% in 2004
Netherlands	Yes	Yes	Front seats: 90%
			Rear seats: 69%
Norway	Yes	Yes	General: 88% in 2003
			Front seats: 92%
			Rear seats: 83%
Poland	Yes, since 1983	Yes, since 1997	Urban areas in 2005
			Front seats: 72%
			Rear seats: 46%
Portugal	Yes	Yes	In 2004 - General: 83%
			In 2004 - Front seats: 87%
			In 2004 - Rear seats: 16%
Romania	Yes	Yes	
Slovak Republic	Yes	Yes	
Slovenia	Yes	Yes	Driver only in 2003: 92 - 96%
Sweden	Yes	Yes	In 2003 - General : 90%
			Front seats: 93%
			Rear seats, adults: 73%
			Rear seats, children: 90%
Switzerland	Yes	Yes	Front seats in 2003: 80%
			Rear seats: 57%
Turkey	Yes	Yes	Long distance trip : +/- 93%
			Local trip: +/- 16%
UK	Yes	Yes	Front seats: 94% in 2003
			Rear seats: 83%

Source: OECD Country report on road safety performance

Fraud and non-insurance

Fraud and non-insurance are also factors that affect insurers differently from country to country. Despite the lack of accurate data, these two phenomena can affect significantly the accounts of insurers and therefore the price paid by policyholders.

In Italy, according to an estimation made by ANIA[9] and ISVAP[10], about 2.81% of claims appear to involve fraud and represent about 2.44% of the total claims paid by insurers. These rates vary significantly from region to region. The ratio rises to 8.31% of claims involving fraud in southern Italy against only 0.97% in northern Italy. In the United Kingdom, according to an ABI[11] research, the annual cost of insurance fraud is estimated at £1.6 billion. In the ABI survey[12], one adult in ten admitted to having cheated on their insurance. These cheats push up the cost of insurance, adding nearly £40 to the average premium paid each year by honest policyholders. The creation of the Insurance Fraud Bureau in 2006, which covers 97% of the motor insurance market, also demonstrates the importance of the problem for British insurers.

In Italy about 2.8% of the claims appear to involve fraud and represent around 2.4% of the total claims paid by insurers

Non-insurance involves on average between 1% and 2% of the total number of vehicles in Europe. As for the other factors, the levels of uninsured driving can vary widely from one country to another. The highest estimated rates are above 3% and even above 5% in the United Kingdom, while the lowest rates are far below 1% (e.g. 0.01% in Germany). To a large extent, an overall improvement of the situation has been observed in most European countries.

Non-insurance concerns between 1% and 2% of the total number of vehicles in Europe

IV.2 Claims costs

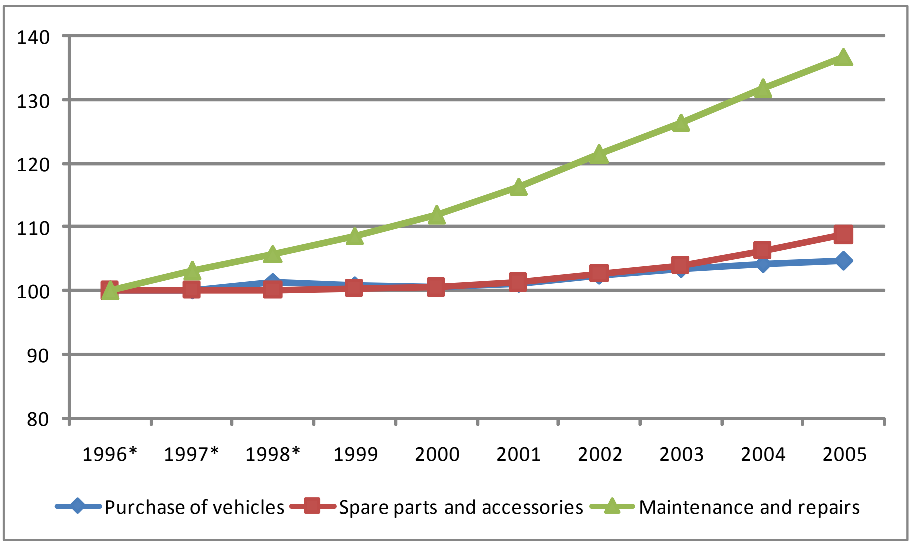
Vehicle repair and spare parts prices

Vehicle and repair prices are important factors influencing claims expenditure in motor insurance. If the evolution of the price of spare parts and vehicles has remained moderate in recent years, the price of maintenance and repairs to cars has literally exploded, growing by 36% on a ten-year basis, which represents an average growth of 3.5%.

The price of car maintenance and repairs has grown by 36% within 10 years

9 *Associazione Nazionale fra le Imprese Assicuratrici* (Italian Association of Insurance Companies)
10 *Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo (CEIOPS Member)*
11 *Association of British Insurers*
12 *http://www.abi.org.uk/Newsreleases/viewNewsRelease.asp?nrid=14547*

Graph 37 | Evolution in the price index of vehicles, spare parts and repairs

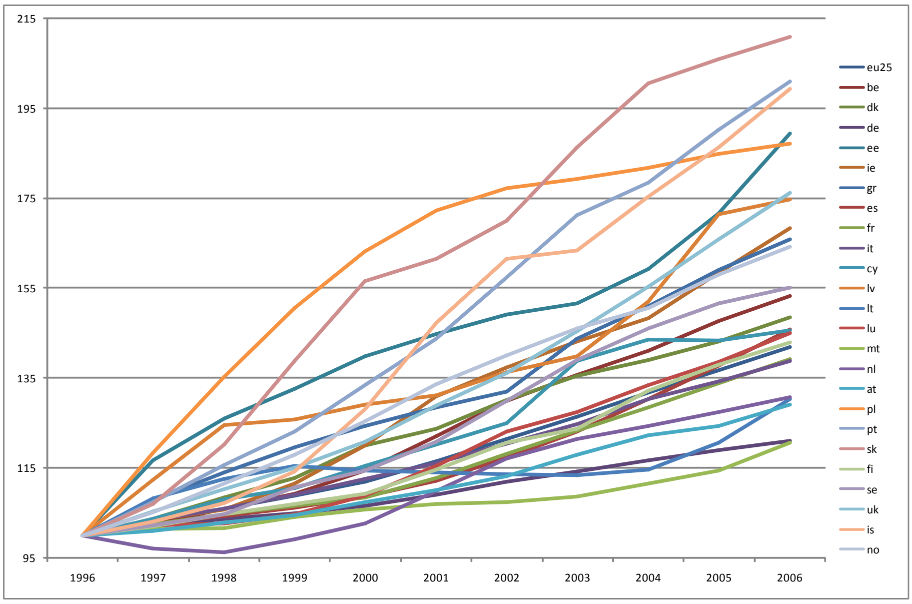


** Estimates*
Source: Eurostat

Moreover the growth rate in the price of maintenance and repairs and of spare parts varies significantly from country to country and indicates major disparities in prices for such services and goods. In some countries (Slovakia, Portugal, Iceland) the prices have even doubled since 1996.

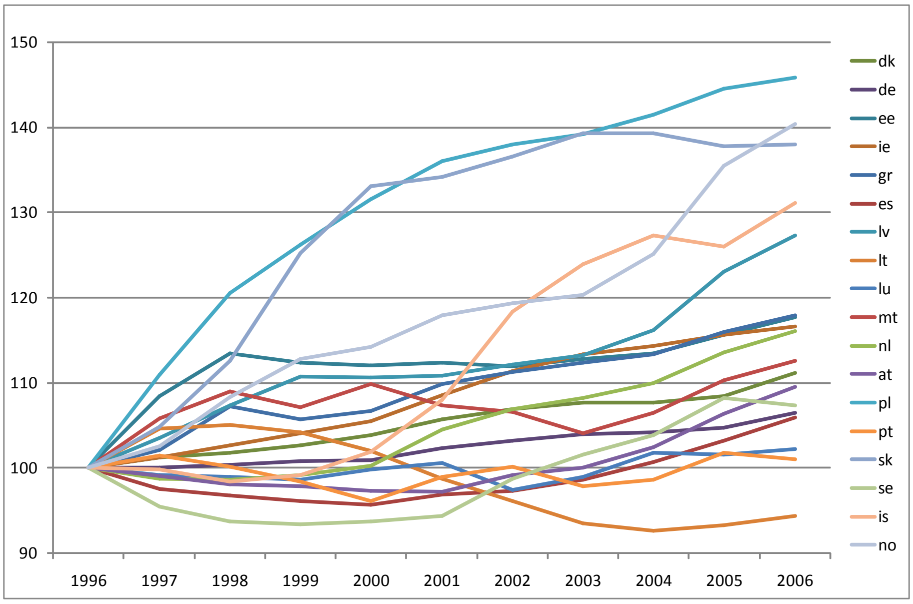
Such discrepancies must entail differences in insurance prices between countries. Although slight changes in the cost of insurance may be borne without significant effects on premiums, larger changes such as the 100% increase observed in Portugal, Slovakia and Iceland in the maintenance and repair of vehicles, need to be passed on to insureds if the claims frequency and other costs do not change.

Graph 38 | Maintenance and repair of personal transport equipment Annual average price index (1996=100)



Source: Eurostat

Graph 39 | Spare parts and accessories for personal transport equipment Annual average price index (1996=100)

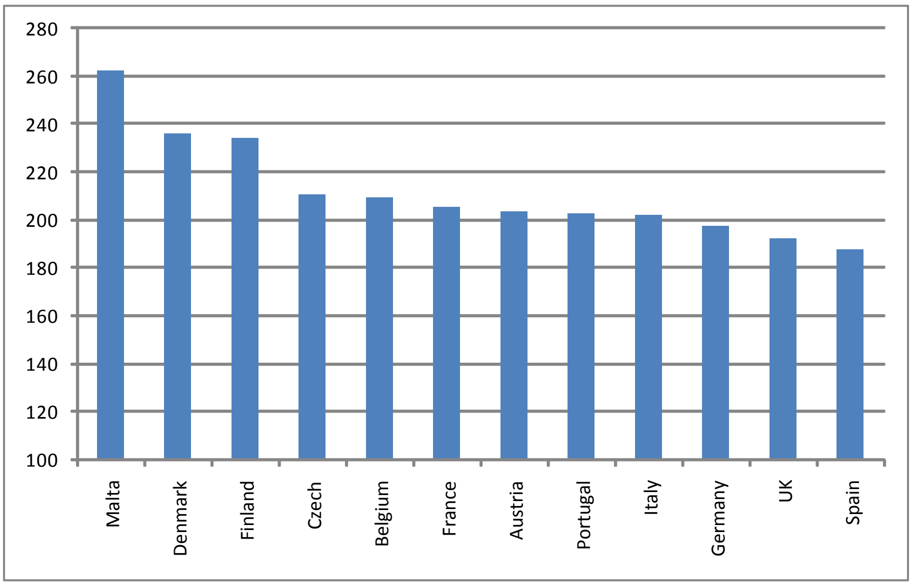


Source: Eurostat

This heterogeneity in prices is also observed for generic spare parts. According to a CEA survey, the generic average part price[13] for the same car type (B category) varies from €188 in Spain to €262 in Malta.

The heterogeneity in prices is also observed for generic spare parts

Graph 40 | Generic average part price in euros for Category B vehicles (2006)



Source: CEA (Spare part price survey)

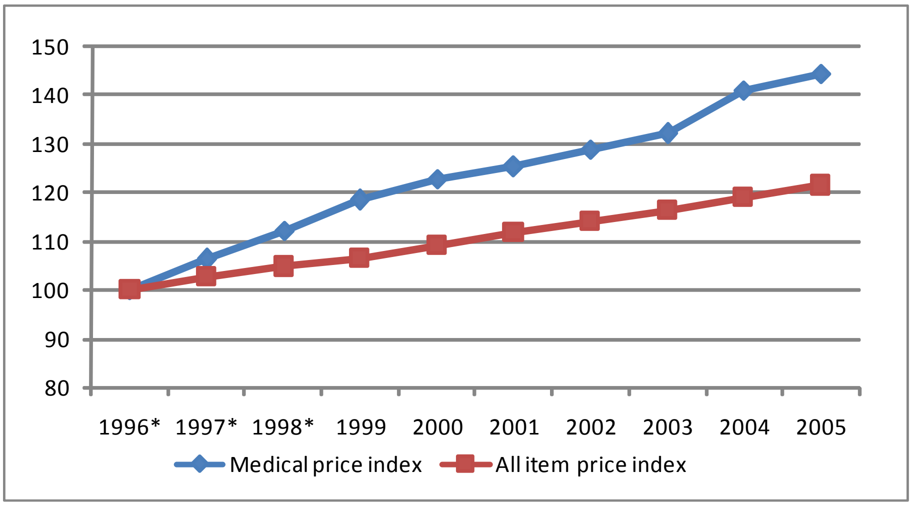
Medical care prices

Other prices play an important role, including the price of medical care which generally tends to grow faster than other price indexes, the price of vehicle repairs, prices of spare parts (see above). These are all key variables that influence the cost of insurance, along with the return on investments, etc...

Medical care prices tend to grow faster than other price indices

13 This price index encompasses 12 insurance sensitive parts, i.e. front bumper, bonnet, flasher lamp, front wing, radiator, headlamp, front door, rear door, rear wing, rear lamp, boot lid and rear bumper.

Graph 41 | Evolution of medical price indices in Europe



* *Estimates*

Legal expense costs

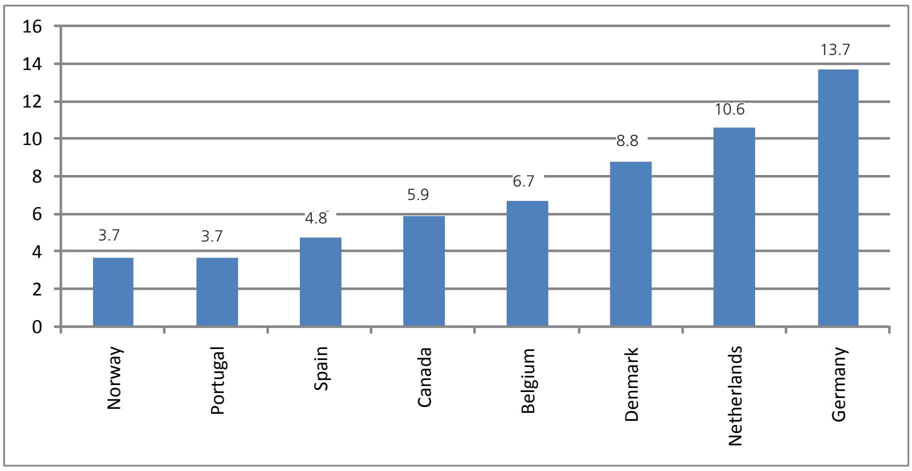
The cost of compensation for cases dealt with by courts is also playing an increasing role in claims expenditure. Consequently, national governments should not expect to record decreases in premiums similar to those in the number of accidents. Nevertheless as shown previously, the competition between insurers and the reduction in claims expenditure has rapidly given effect to a slowing of price increases and even to a reduction in prices on the European markets in 2005.

Differences in the impact of road accidents

The impact of accidents is very different according to the country

The impact of accidents is also very different according to the country where it takes place. In Germany for example, we find on average 13.7 hospitalised people for one road fatality, while in Norway and Portugal, this figure goes down to 3.7.

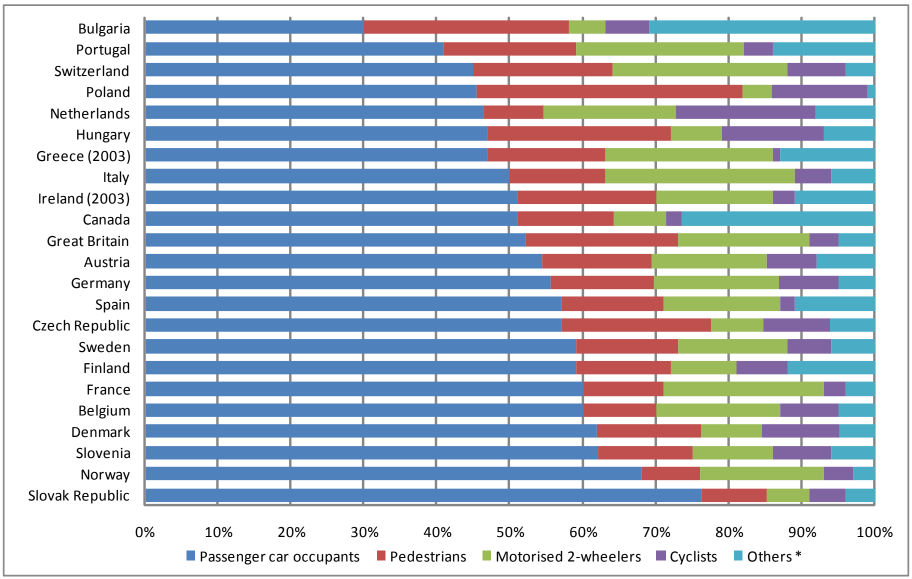
Graph 42 | Number of hospitalised road users per fatally injured road user



Source: OECD (2000)

In a similar manner, the impact of an accident will differ across countries according to the means of transport used.

Graph 43 | Share of fatalities per user group

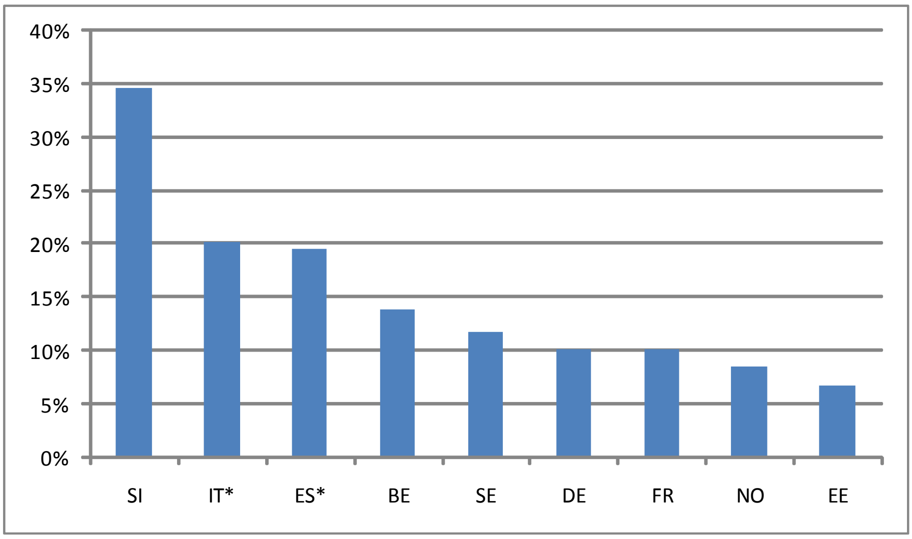


Note: Others include trucks, coaches, and tractors.
Source: IRTAD (2004)

The share of claims with bodily injuries differs from one country to another

As a consequence, the share of claims with bodily injuries[14] will be different from one country to another. As the graph below shows, for our sample of countries, this share ranges from 6% to 35%[15].

Graph 44 | Share of claims with bodily injury in motor liability - 2005



As those claims involving bodily injuries are much more costly, insurers will have to increase the level of premiums accordingly.

Differences in personal injury compensation

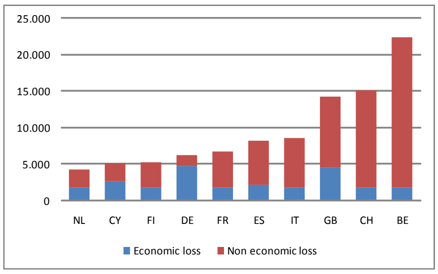
For an identical accident, the total indemnity may be multiplied by five from one country to another

As shown in the following two graphs, for an identical accident, the total indemnities may be multiplied by five from one country to another. These indemnities encompass the economic loss (loss of income, annuities, medical

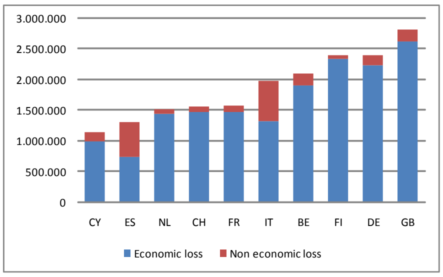
14 A detailed analysis of claims frequency and bodily injury was already presented in section III.2.a
15 These figures should be interpreted with caution as the way these claims are recorded may vary from one country to another.

cost, fitting out of the house, wheelchair, aesthetic treatment ...) as well as the non-economic loss (indemnities for pain and suffering, moral indemnities, indemnities for aesthetic damage ...).

Graph 45 | Indemnity to a child - 10 years - scar on the face



Graph 46 | Indemnity to a notary - 40 years - Paraplegia



Source CEA : L'indemnisation du dommage corporel en Europe (Données 2003), 2004

Part II

Country guide

Austria

I. Market developments

There are currently 25 companies operating on the Austrian motor market, including one insurer that only offers vehicle damage insurance.

The five largest insurers have a market share of 67% while ten providers have a market share of less than 1% each.

In 2006 the motor fleet was 5.7 million registered vehicles (not including trailers), including approximately 4.2 million private vehicles. The number of registered vehicles continues to rise slightly.

Premium income in motor liability insurance increased by 0.7% to € 1.8bn in 2006 and, in contrast to 2004, benefits fell by 3.4% from € 1.30bn to € 1.25bn.

There was a continuing trend towards a slight decrease in the frequency of claims at 101 per 1,000 contracts.

Premium income in vehicle damage insurance increased by 2.9% to 1.02bn euros in 2006. The number of risks insured was 1.71 million and claims expenses fell by 1.2% to € 666bn.

The claims frequency of 380 per 1,000 contracts may have fallen slightly against 2005, but it is still high.

II. Developments in 2006

In Austria, motor insurance continues to be marketed mainly through employed intermediaries. Only a small part is distributed by brokers and independent agents. The share of distribution via the internet or telephone is negligible. The development in many markets of marketing own-brand insurance together with the new vehicle has not yet reached Austria.

At 1st July one first insurer started selling MTPL Insurance in Austria on the FOS basis.

Regarding the products there could be seen some slight modifications concerning bonus/malus systems and the tariff structure but no revolutionary development is expected in the near future.

Unlimited cover is not an issue in Austria; the most common cover sold for private vehicles is € 10m or € 15m.

Monitoring of repair costs remains a major concern of Austrian motor insurers in 2006. The increase in repair costs was 3.22% compared with an inflation rate of under 2%.

The average hourly labour price increased by 5.17% and is now on average appr. € 101. The use of alternative, cost saving repair methods, such as plastic or spot repairs (in the paint sector) is to be increased as a result of organised events and training. In addition, the insurance industry is seeking to a large extent to handle communications with the repairshops electronically (requirement for inspection, sending to experts report and the invoice).

III. 5th Motor Insurance Directive

The transposition of the 5th Motor Liability Directive was effective by 1st July and did not cause any problems.

The new minimum sums are 5m euro for bodily injury / 1m euro for material damage per event combined in a lump sum of 6m euro (per event). There are significant higher minimum amounts for busses and vehicles carrying dangerous goods.

The Austrian Guarantee Fund has to compensate material damage caused by unidentified vehicles where a victim is “seriously” injured following the relevant definition in Austrian criminal law. This is an injury which involves an impairment of health or incapacity for work of more than 24 days. It remains to be seen if this provision will be problematic in practical claims handling of these Guarantee Fund cases.

Belgium

I. Economic market developments in 2006

Premium income for 2006 in the motor class

I.1 Growth in premium income 2003-2006

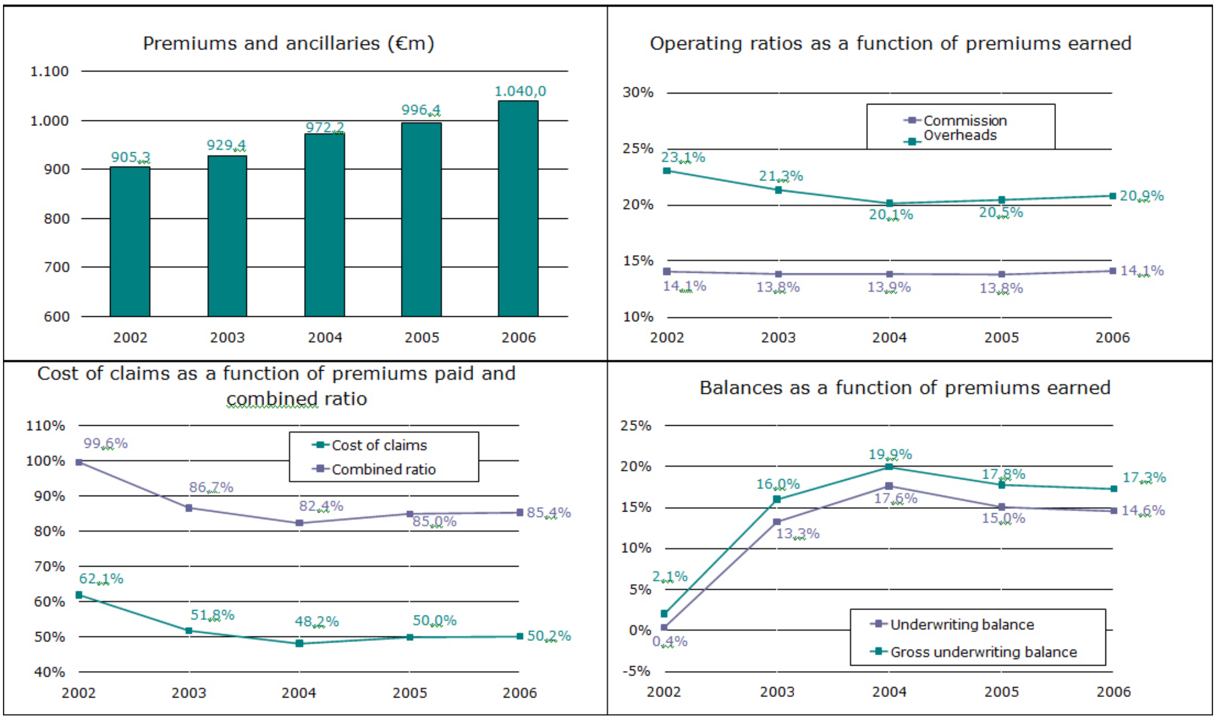
BELGIUM	Premium Income (in €m) 2003	2004	2005	2006 (*)	Nominal growth (in %) 2004/2003	2005/2004	2006 (*)/2005
Motor	2,790	2,935	2,983	3,019	+ 5.0	+ 1.6	+ 1.2
Motor liability	1,857	1,940	1,962	1,958	+ 4.5	+ 1.2	-0.2
Motor vehicle own damage	934	995	1,020	1,061	+ 6.1	+ 2.6	+ 4.0

(*) Extrapolation

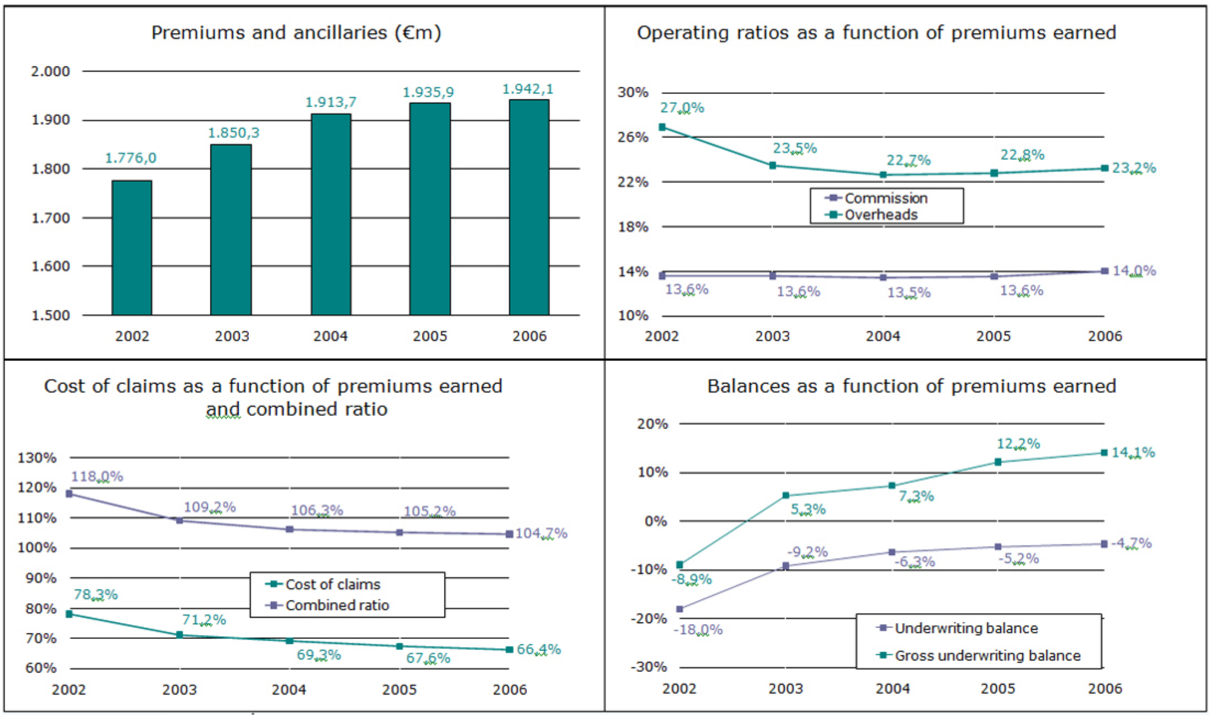
I.2 Share of the top 15 groups in the liability market in 2005 in %

Ranking	Financial groups	2004	2005
1	AXA	20.25	19.92
2	Ethias	15.60	16.12
3	Fortis Insurance Belgium (FIB)	12.12	12.53
4	KBC	10.67	10.94
5	Winterthur	7.40	7.23
6	Mercator/Bâloise	6.27	5.91
7	Dexia Insurance Belgium (DIB)	5.96	5.77
8	P & V Assurances	5.62	5.48
9	AGF/Allianz	4.10	4.17
10	ING	3.80	3.79
11	Generali	2.73	2.48
12	Federale Assurance	1.39	1.46
13	Swiss Life	1.09	1.10
14	Argenta	1.01	1.05
15	Avéro	0.68	0.65
	Market share of the top 15 (%)	98.69	98.60

Motor vehicle own damage Trends for 2006



Motor liability



Trends for 2006

After the losses of 2001 and 2002 and two transitional years, 2003 and 2004, the motor liability class reached a healthier state in 2005, although the cost of claims has hardly fallen. All the excitement caused in the media by this extremely competitive class of insurance seems to have calmed down.

Premium income increased by only 1.2% in 2005 to €1,936 bn, i.e. growth comparable to that of the growth in the number of vehicles on the road. Increases in premiums were generally the exception rather than the rule. In addition, the average premium for the entire motor liability class only increased by 3% between 1996 and 2005.

After the necessary rating adjustments which were carried out over the past few years, compulsory motor insurance was restored to profitability again: the gross underwriting balance as a function of premiums earned was 12%. As regards motor liability insurance for trucks (> 3.5 tonnes), a loss of 12.8% in 2004 gave way to a positive result of 5.4%.

The greater attention paid to road safety had a favourable impact on insurer's claims costs, especially in 2002 and 2003. The graph (at the bottom of the page, p. x) indicates a relative reduction in the cost of claims of 10 and 7 points respectively. Since then the positive trend in the accident statistics continues to have its ups and downs. The frequency of claims remained effectively stable in 2005, as in 2004. With regard to the cost of claims, the indicator established by Assuralia indicates an increase of 11.6% over the period 2001-2005. This indicator takes into account the development in the price of new cars, spare parts and accessories, the hourly wages of garage mechanics, expenditure on health care and contractually agreed wages.

The "own damage" class, i.e. Casco insurance, remains healthy, with a gross underwriting balance of 17.9% of premiums earned. Premium income has increased slightly by 2.6%. A survey by Assuralia reveals that the average own damage premium in tourism and business is up by 1.1%. The reinstatement value of vehicles has, in addition, also increased by 1.1%.

In 2005, the cost of claims picked up again (+1.7%), whereas the number of thefts of cars continued to decline. According to the annual report by the Federal Police, the number of thefts of cars fell from 20,859 in 2003 to 16,969 in 2004 and 14,854 in 2005. The increase in expenditure on material damage was due to the cost of repairs rather than to an increase in the number of accidents.

II. Important events

II.1 Legislation: Limitation in motor liability cover for material damage

Belgium is one of the last European countries to have unlimited cover for motor liability insurance. At the end of 2006, the government decided to replace the unlimited nature of the material damage cover by a minimum sum of €100 million. As a result, the damage caused by a vehicle to third parties in the event of fire or explosion will also be covered up to €100 million. Previously, the liability cover had generally been limited to €1.2 million in the event of fire or explosion.

The cover for bodily injuries remains unlimited, but the law makes it possible to introduce the same limit by royal decree depending on developments in the international insurance market.

II.2 Market practices

Road safety

The accident statistics for 2005 evoke mixed reactions. The good news: the number of people killed on the roads continues to fall: from 1,163 fatalities in 2004 to 1,089 in 2005 (- 6.4%). The bad news: the number seriously injured (+ 5.9%) and slightly injured (+ 3.4%) is increasing. The trend follows a parallel curve in the three regions of the country.

In five years, the number of fatalities has fallen by 25%. In terms of progress, Belgium has therefore obtained the third best rating in the European Union. Only France and Luxembourg have done better. In addition, the European Commission has asked us to pay more attention to motorcyclists and young people in the next few years.

In 2006, Assuralia gave its support to the Bob campaign for the third consecutive year. Radio spots, adverts along roads and in windows, beer mats and a HoReCa (hotel, restaurant and café) gadget confirm the active collaboration of insurers in the campaign. For revellers, the professional association put together a real Bob CD which was distributed through a competition organised on the Assuralia website.

In 2005, the police recorded 4.4% of drivers as being tested "positive", but in accidents which occurred at the weekend (during the end of year celebrations in 2005), this proportion rose to 21.2%. The police are trying to bring these figures down by checks at less standardised locations. Assuralia is arguing, together with its partners Bob, Arnoldus, the IBSR (Belgian Road Safety Institute) and the Minister for Mobility, for more awareness-raising actions throughout the year and not only during public holidays.

Motor liability rates for young drivers: promise met

The average frequency of claims in our country is 6.7%. This means that 6 to 7 drivers out of 100 cause an accident during the year. Among drivers aged 18 to 29 years, the frequency of claims does, however, reach much higher levels. For the youngest male drivers, it is almost 30%. It is not surprising therefore that motor insurance for young people is in deficit. The sector, nevertheless, gave an undertaking to the political authorities to offer policies at a limited rate for this target group.

In 2006, the INS (National Institute of Statistics), now renamed the FPS Economy - Directorate-General Statistics

Belgium (Direction générale Statistique et Information économique), studied the premiums offered to young people. It emerged from its analysis that the maximum premiums applied to young drivers had been reduced by a half in three years. The average premiums for young people fell significantly to a level of approximately €830 in mid-2006, including taxes. Conclusion: the sector kept its word, more accessible rates for young people are a reality.

The undertaking given by the sector at the end of 2003 also covers guaranteed access to insurance for older drivers. In this respect, the Insurance Ombudsman Service receives virtually no complaints for that group, nor for young drivers. Even life cover is available on the market for old age pensioners. In addition, drivers belonging to this age bracket, like all other drivers who cover very few miles, now sometimes benefit from special rating conditions.

The detection of non-insurance is being stepped up

The Joint Motor Guarantee Fund sent out an order in 2006 to produce evidence of insurance to approximately 40,000 vehicle owners assumed to be uninsured, which was 5,000 more than in 2005. The pressure on those who are not playing the game fairly is therefore intensifying. The Fund estimates the proportion of uninsured vehicles in Belgium at 1 to 1.8% of the number of vehicles on the road. By comparison with our neighbouring countries, this is better than France, worse than Germany which provides an example to follow and as good as the Netherlands. According to initial estimates obtained by the European Commission, the situation is much less favourable in the new Member States where liability insurance is not yet compulsory or has not been compulsory for long. In Romania, the proportion of uninsured vehicles is estimated at 25% and in Estonia at 20%.

The efforts of the Joint Motor Guarantee Fund, police and courts in the battle against non-insurance is bearing fruit. After the remarkable improvement recorded in 2005 (-11%; 8,165 declarations), the number of accident files which were referred to the Fund because of a lack of insurance continued to fall in 2006 (-3.5%; 7,877 declarations). The total costs of the non-insurance files amounted to €25 million for 2006.

The Motor Rating Bureau, created in 2003, offers insurance to “car-bending specialists” when they have been refused by three insurers. The costs of this safety net are divided through the Joint Guarantee Fund and borne by the entire market. The average premium in tourism and business is around €1,100. Between November 2005 and November 2006, the Bureau insured 8,271 vehicles and recorded a loss of €8.5 million, a deficit split between all insurers via the Fund.

Young road victims

The attention paid to young road victims is increasing. The political arena has made it a priority. In the meantime, Assuralia has extended and enhanced its dialogue with the Association for parents of young road victims (PEVR) by preparing rules of conduct for the sector for the handling of serious accidents involving children.

In the same context, insurers are also working on existing recommendations for the settlement of claims made by insureds with the aim of extending them to all victims.

III. Predicted future developments

Assuralia is working on several issues which will enable insurance companies to speed up and simplify claims handling:

- drawing up an agreement with the social security bodies,
- revision of the standard general conditions for motor liability cover,
- certification procedure for anti-theft systems.

Switzerland

I. Market Development

I.1 Development of business in 2006

Compared with 2005, which was a record year in terms of loss occurrence, Swiss private insurers to a large extent escaped significant loss occurrence last year. Stock markets around the world also performed particularly well so that the private insurance sector was able to achieve good results, even if these results differed from business area to business area. A slight increase in premiums in indemnity insurance of 1.8 percent is to be seen alongside a decrease of 1.8 percent in life assurance.

The most marked increase was in motor vehicle insurance with an estimated 2.8 percent. Premium income from this sector totalled approximately 5.3 billion (Swiss) Francs, with approximately half (of this amount) being accounted for by liability insurance and comprehensive car insurance respectively. The pressure of competition has continued to increase due to the ambitious growth objectives of large motor vehicle insurers.

I.2 Development of business activity

The good results are attributable not only to external circumstances such as improved stock market performance or the absence of significant catastrophic loss, but also to professional management of underwriting transactions. This includes leaner organisations as well as consistent process and cost management. The necessity of achieving a positive result in terms of technical business continues to be indisputable. Business administration has once again been accorded the vital role which it deserves. Annual inflation and the increase in consumer prices amounted to only 0.5 percent in 2006.

In the past year, the number of cars purchased in Switzerland increased once again. With 269,748 licenced new cars, the weak previous year's figures were exceeded by 3.9 percent. In 2006, the number of private cars thus increased by almost 1 percent to approximately 3.9 million vehicles. With 523 vehicles per 1,000 inhabitants, Switzerland is one of the most highly motorised countries in Europe alongside Liechtenstein, Luxemburg, Iceland, Italy, Portugal and Germany.

I.3 Outlook for the year 2007

The strong competition is likely to result in the scale of premiums being subjected to pressure and in more moderate premium increase rates in future. Several companies have already announced that they are planning to launch new products featuring lower premiums. The general expectation is that the premium level will tend to decrease as a result of the years with minimal loss occurrence and the market leaders' ambitious growth objectives. All companies are tracking the market trend extremely closely.

Compared with the previous year, sales of new cars have increased again during the current year with a plus of 2.8 percent. Whether this trend will continue until the end of 2007 remains to be seen. At any rate, car salesmen appear confident that this will be the case.

II. Significant Events in 2006

II.1 Decline in the number of accidents

The performance of motor vehicle insurance sectors is significantly influenced by the incidence of accidents. The relevant statistics fortunately indicate a continuing decline in the number of fatal accidents for 2006. Insurers have for some time promoted accident prevention initiatives such as 2-phase tuition and driving with headlights switched on during daylight hours. They have also recently started to support measures to prevent collisions with wildlife. Insurers have also approved in principle the package of measures known as "Via sicura", which is due for consultation in the near future. These involve infrastructure measures to tighten up monitoring and sanction systems as well as instruction and awareness training for drivers.

II.2 Electronic proof of insurance

As a result of new legislation, all companies offering motor vehicle insurance in Switzerland will be obliged to communicate electronically to the vehicle registration authorities the proof of insurance which is necessary in order to obtain number plates by the end of 2008. A working group under the management of the technical advisory committee for motor vehicles has been engaged in the project "electronic proof of insurance" for a considerable time. Several companies and cantonal registration authorities have now joined the electronic transmission system, thus making it unnecessary to issue the accepted certificates of insurance in paper form in future.

II.3 Rating characteristics

Virtually all motor vehicle insurers take into account the nationality of the most frequent driver of a vehicle when calculating premiums. This practice has for years led to certain controversies with individuals, their legal representatives as well as with certain federal authorities. To date, all attempts to prohibit this standard practice have been rejected, including political initiatives. Despite this rejection, it is likely that certain circles will continue to strive to prohibit the use of nationality as a rating characteristic.

II.4 Common claim or damage pool

By creating a common claim or damage pool, motor insurers aim to eliminate unjustified payment of damages in future. The idea is to store motor vehicle claims in a database and to make the information accessible to all companies connected to the system if they fulfill certain conditions. When a claim is registered, it should therefore be possible to view the claim history of the vehicle concerned and to ensure that any issues are clarified.

III. Projects For 2007

III.1 Notification service

The notification service between companies will in future be performed electronically via the branch office of the Schweizerischer Versicherungsverband (SVV) (Association of Swiss Insurers).

III.2 Leasing

Exchange of data between leasing companies and insurers will be simplified and harmonised electronically.

III.3 Claims history declarations

The claims history declarations issued by companies to customers are to be standardised on the basis of the EU ruling.

III.4 New teaching aids

New curricula and teaching aids are to be compiled for the course leading to "qualified insurer" status.

Cyprus

I. Market developments in 2006

Total motor premium income in 2006 reached CY£ 94.4 mn (€ 163 mn), 6,7% higher compared to 2006. Motor remains by far the largest non-life class representing 45% of total non-life premiums. The proportion of motor third party liability premiums of the total motor premium income written in 2006 is estimated at 71%.

Intensifying competition led to a slight softening of rates in 2006. Gross claims ratio reached 62.4% compared to 60,7% in 2005. Net claims ratio remained stable at 61%. Expense ratio and acquisition cost ratio also remained stable at 15.4% and 22.4% respectively. The class remained profitable posting an aggregate underwriting profit of CY£ 1.9 mn in 2006 compared to CY£ 1.3 mn in 2005.

According to the Cyprus Department of Statistics, the GDP at current market prices reached CY£ 8,362 mn in 2006, compared to CY£ 7,740 mn in 2005. The rate of inflation reached 2.5%, compared to 2.6% in 2005 while the unemployment rate reached 3.4% of the labour force, marking a slight decrease from 3.7% the year before.

II. Important events during the year

II.1 Legislative and statutory

Transposition of 5th Motor Directive (see III.2).

II.2 Market practices

Motor Insurance is mainly sold through agency network or directly. Telephone sales are increasing but still not a dynamic distribution source. Internet sales remain low. On the claims side no changes noted; traditional methods are followed.

III. Foreseeable future developments

III.1 Market structures and practices

The market is concerned with the development of crime and fraud. Prevention methods are currently under consideration.

III.2 The transposition of the 5th Motor Directive

A law transposing the 5th Motor Directive into national legislation was voted in June 2007. As a result the limits for MTPL compulsory insurance have changed as follows:

- Bodily Injuries: € 30 million per event
- Property Damage: € 1 million per event

No transitional period was provided. No foreseeable effects unless market experience provides evidence of deterioration of losses due to the high increase in the limit concerning property damage.

III.3 Follow up of the consequences of the entry of 10 new Member States into the European Union

In anticipation of the admission of Cyprus to the EU, the Cypriot insurance market has made a series of adjustments in order to maintain its role in the economy under the new environment of free competition that would inevitably be created.

Several European insurers have registered to operate in Cyprus under FOS and FOE. However their presence in the local market remains very limited. Brokers from other member states are now operating in Cyprus writing relatively significant volumes of business.

IV. Specific comments

Cyprus is preparing for one of the most important changes in its economic and political history, the adoption of the single European currency, on the 1st January 2008.

The Insurance Association of Cyprus has taken all necessary steps to guide its members and conversion by all insurance companies is progressing timely and effectively. Consumers have also been informed on time regarding the introduction of the new currency in the private insurance field and to help them get to know how and how much their insurance policy will be affected from its’ adoption.

Germany

I. Market Development

I.1 Income from premiums, actuarial operating result

In 2006, the gross income from premiums for motor insurance totalled approximately EUR 21.2 billion which represents a decline in premiums of 3.6 percent compared with the previous year. For motor liability insurance, premiums decreased to 13.1 billion which corresponds to a difference of -3.6 percent compared with 2005. Full-value motor insurance recorded premiums of EUR 6.4 billion which were therefore 3.2 percent lower than those recorded in the previous year. For partial motor insurance, premiums totalling EUR 1.6 billion were recorded, which represented a decrease compared with 2005 of –4.9 percent.

The negative trend in terms of income from premiums was more noticeable in 2006. Once again, it is attributable to significantly increased price competition. As in the previous year, this decrease was accompanied by an increase in inventory risks which increased by 1.1 percent.

The actuarial operating result of just under EUR 1 billion was 10 percent under the previous year's figure.

I.2 Premium level

The negative trend in the premium level intensified again considerably in 2006. In motor liability insurance, the average annual premium declined by 4.6 percent amounting to EUR 243, which is EUR 20 less than two years previously. For full-value motor insurance, the decrease amounted to as much as 5.4 percent. In the year under review, partial motor insurance likewise registered a drop in the premium level of –3.8 percent, which represents a record for the current decade.

I.3 Claims history

The costs incurred by claims during the fiscal year declined in motor insurance by 0.9 percent overall and reached a level of EUR 18.8 billion. This development was due to the trends in motor third party insurance, and in third party fire and theft, which both suffered a decline in terms of costs incurred. This was attributable in particular to slightly falling claims averages and to the number of kilometres travelled which are apparently still declining.

In motor liability insurance, the costs incurred by claims during the fiscal year amounted to EUR 12.3 billion, which represents a reduction of 2 percent compared with the previous year. Third party fire and theft insurance recorded a 1.2 percent drop, with the costs incurred for claims during the fiscal year amounting to approximately EUR 1 billion. Comprehensive motor insurance on the other hand saw an increase in costs incurred of 1.8 percent, to EUR 5.4 billion.

In third party motor liability insurance, the number of claims declined by 1.5 percent and currently totals 3.4 million.

I.4 Economic and social environment

The economic conditions for motor insurance were characterised by a price-adjusted growth of 2.5 percent as the result of the first substantial upturn for five years. This only had a qualified impact on the financial figures for motor insurance due to the fierce price competition amongst insurers, the feeble upturn in the motor vehicle trade, the continuing decline in claims frequency and further improvements in vehicle safety equipment.

I.5 Preliminary trends for 2007

The trends for the current year 2007 point to continued price competition. However, the downward trend is less pronounced than in the previous year. Initial statistical data regarding the development of gross income from premiums indicate a decline of 1.8 percent compared with the previous year for motor insurance as a whole.

According to the accident statistics for the first half of 2007, the incidence of claims is likely to lead to pressure on financial figures. Accidents involving car body damage only increased by 1 percent compared with the same period of the previous year, and the total number of accidents also increased by 2.5 percent.

II. Significant Events in 2006 / First Six Months Of 2007

II.1 Activities of legislators, government and jurisdiction

II.1.1 Reform of insurance contract law and duty of information regulations

The reform of insurance contract legislation outlined in the 2005/06 national report has now been endorsed by the Bundestag. It is anticipated that it will be adopted by the Bundesrat (chamber of representatives from the Länder) in October 2007 and that the legislation regarding new policies can come into force as scheduled on 01.01.2008.

In consultations with the Federal Ministry of Justice, The Gesamtverband der deutschen Versicherungswirtschaft eV (GDV), the umbrella organisation of the German insurance industry, managed to achieve a very important clarification for motor insurance companies to the effect that preliminary cover can cease to be valid retroactively if the first premium payment is not made. Contractual stipulation between the customer and the insurer is a prerequisite.

The implementation period for the new insurance policy legislation and conversion of old policies remains very short. The latter must be completed by 01.09.2009, and customers must be informed of the changes by 30.11.2008 at the latest. If the insurer fails to inform its customers, the old policies will only remain valid if they do not conflict with the new legislation.

In conjunction with the amendment, the Federal Government has also tabled a regulation regarding duty to supply information (InfoV), which is likewise due to come into force on 01.01.2008. The regulation stipulates a product information sheet, which is intended to summarise all important information for customers clearly and concisely. The information sheet is to be distributed not only to consumers, but also to commercial customers, with the exception of high-risk commercial customers.

What is particularly problematic at this juncture is concrete specification of the premium. As the precise vehicle model insured is frequently not yet known when preliminary cover is granted, the premium subsequently payable cannot yet be identified. On the basis of consultation with the ministry responsible, the GDV hopes to achieve appropriate clarification of this issue in the rationale for the regulation from the Federal Government.

II.1.2 Equal treatment directive and general points regarding equal treatment legislation

In the 2005/06 national report, we also covered the Allgemeines Gleichbehandlungsgesetz (AGG), (General Equal Treatment Act) which came into force on 18.08.2006 and is partially based on the EU Equal Treatment Directive. The act stipulates among other things that different treatment on the basis of gender is only permissible if taking the characteristic into consideration is a pertinent factor in a risk evaluation, based on relevant and precise actuarial and statistical data. The legislator requires the specified data to be reliable, regularly updated and accessible to the public.

The GDV intends to publish statistical data on its website regarding the tariff differences between male and female drivers under the age of 25. The modalities for publication still have to be clarified with the Federal Ministry of Finance and the regulatory authority (BaFin).

II.1.3 Implementation of the fifth automobile third party liability directive

The fifth automobile third party liability directive published on 11.06.2005 has still not yet been made national law. It is to be anticipated that the requisite amendment of the Pflichtversicherungsgesetz (Mandatory Insurance Act) will have overcome its parliamentary hurdles by mid November 2007, i.e. with a certain delay in terms of the EU requirement of June 2007.

A German anomaly will be the guarantee fund's obligation, limited in time to five years, to assume liabilities for accidental damage occurring within the national borders for vehicles exempted from compulsory insurance. These are motor vehicles with a maximum speed of 6 km/h, self-propelling work engines and forklift trucks with a maximum speed of 20 km/h, as well as trailers which are not subject to the licensing procedure. The statute does, however, stipulate that the claimant must make credible the non-feasibility of his claim against the actual author of the damage. In addition, the guarantee fund is able to have recourse against the injuring party.

German motor vehicle insurers will critically observe whether this provisional regulation proves of value in practice.

II.1.4 Environmental damage law

The environmental damage law, which is based on the EU environmental liability directive, will come into force on 14.11.2007 and apply to all claims occurring from 30.04.2007 onwards. It will also be applicable to environmental damage which is caused by the use of motor vehicles:

- when transporting hazardous or environmentally harmful goods, or

- during the course of certain specified occupational activities in cases where the operator is at fault or negligent.

Holders of motor insurance could be threatened by a gap in cover if there is no civil law basis, only a public law basis, for claims by the injured person resulting from such damage. As the law protects the natural environment as such, and the environmental authority grants discretionary power in implementing claims for repairing the damage, a gap in cover is conceivable, even if only in marginal and exceptional cases. The GDV is currently investigating in what legal form a corresponding gap in cover can be prevented in the interests of customers.

III. Foreseeable developments for the future

III.1 Repercussions of the single European market and deregulation

Increasing number of foreign providers on the German motor insurance market

Deregulation and the single European market have caused the proportion of foreign insurers and German insurers with holding companies abroad to increase continuously. The market share of these companies currently totals as much as 19 percent. The German market is, however, still characterised by the large number of providers – more than 100.

In the period under review, the arrival on the German market of new motor insurers from the British Isles was particularly noticeable. It is also interesting that this addition to the German market is supported by efforts on the part of reinsurers to carry out business in the direct insurance market. Both tendencies converge in collaboration on the part of individual reinsurers with foreign direct insurers on the motor insurance market.

Market structures and practices:

insurers' advice and information system

The question of the extent to which the insurers' advice and information system, which serves to combat insurance fraud in claims settlement, can be legally safeguarded.

The GDV is in the process of complex negotiations with the regulatory authorities for data protection and anti-trust law. Clarification also has to be achieved of the nature of the consent which the customer gives to the insurer to legally safeguard monitoring measures when the contract is concluded.

Denmark

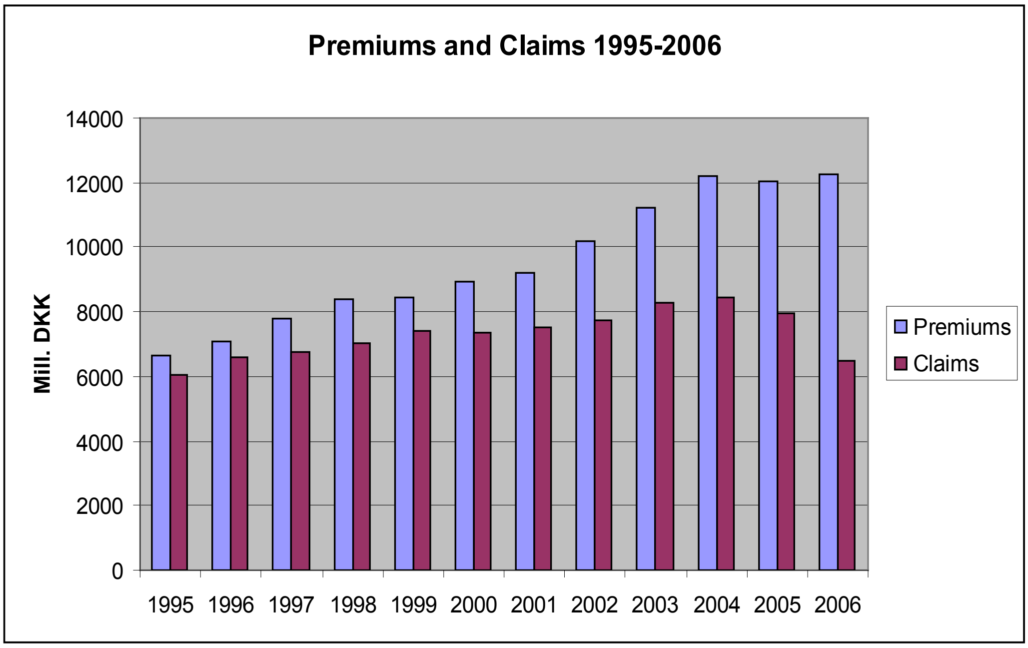
I. Motor Insurance market in Denmark

I.1 Claims and Premiums

In Denmark third party liability insurance for motor vehicles is directly linked to the vehicle registration, the issuing of license plates and the taxation of new cars. Thus all cars are covered by the compulsory third party liability insurance for motor vehicles. Due to the very high car taxes, new cars are very expensive in Denmark and approximately 85 per cent of all passenger cars are therefore covered by the supplementary comprehensive motor insurance.

Motor insurance total premiums have increased up to more than 12 billion DKK in 2006. Claims on the other hand have been reduced during 2005 and during 2006. Thus the overall motor insurance claims ratio is very positive.

The premium income for motor insurance in Denmark accounts for approximately 30 per cent of the total premium income for non-life insurance.

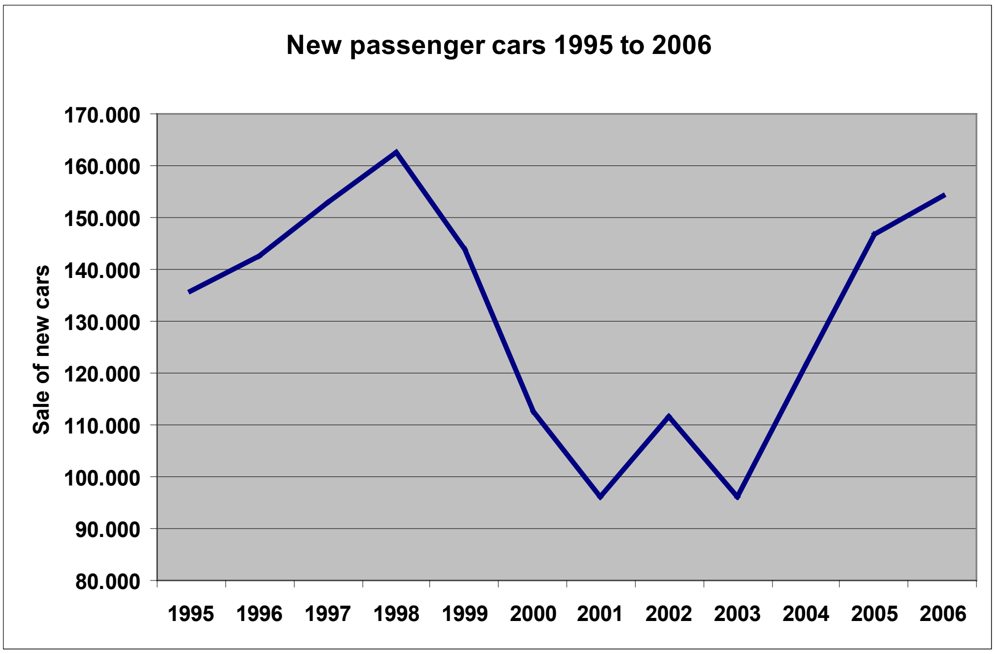


(Claims and premiums for 2007 are not yet available).

I.2 Number of passenger cars

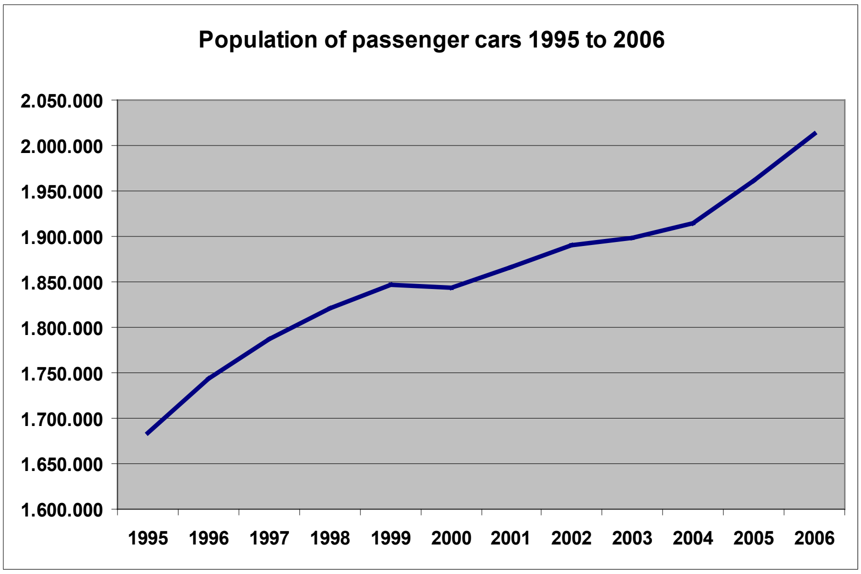
The number of sold new passenger cars increased in 2006. 154,227 new passenger cars were sold in 2006, a 5 percent increase compared to the previous year.

The development of the number of sold new passenger cars from 1995 to 2006 is shown below.



The total number of passenger cars has increased slightly in 2006 and was by the end of 2006 more then 2,000,000. Adding trucks, lorries and busses, the total number of four (or more) wheeled motor vehicles in 2006 was 2.4 mill.

The development of the total amount of Danish passenger cars from 1995 to 2006 is shown below.



II. End of life vehicles regulation

In Denmark the EU directive on End of Life Vehicles was implemented in July 2000.

A payment of DKK 1,750 to owners of end of life vehicles, when having the vehicle scrapped, is funded by a yearly "environmental fee" of DKK 60 paid by all car owners and a small fee paid by car importers per sold new vehicle.

As from 2007 the responsibility of the environmental correct scrapping of "end of life vehicles" will be transferred to the Danish car importers. In practise the car importers and a very large scrap company have made an agreement saying that the scrap company will receive and scrap all Danish "end of life vehicles" without charging the last owner of the vehicle.

In 2005, 94,329 "end of life vehicles" were scrapped according to the regulations.

III. The Exemption Regulation on Motor Distribution

Some of the anticipated effects of the EU exemption regulation on motor distribution have occurred in the Danish market.

In the repair field nearly all car importers have, due to more competition from the open market, reduced the spare part prices. The price reductions are seen both in relation to maintenance spare parts and in relation to the most frequently used spare parts for damage repair. The price adjustments differ very much from one importer to the other. Furthermore, today it is more common for the insurance companies to achieve individual discounts on spare parts at the repair shops. The relative use of non-original spare parts for repair purposes seems to be unchanged.

Car manufactures have started the process of harmonising the "factory prices" among the different European countries. The EU regulation and the increased cross-border purchase of cars have resulted in the fact, that most manufactures have raised the factory prices for cars imported to Denmark. Due to the heavy taxation on new cars (25 pct. VAT plus approximately 180 % registration tax) any increase of the import price has a dramatic effect on the consumer prices. Thus, it is intended to regulate the taxation in order to make sure that the consumer prices will increase only according to the inflation rate.

IV. Reorganisation of the Danish vehicle taxes

In April 2007 new environmental vehicle taxes were enacted by the Danish parliament. The new system of car taxation is indented to reduce the total CO2 emission in the transport sector. The purpose is to promote the sale of eco-friendly vehicles and to discourage the sale of vehicles with high fuel consumption and therefore high CO2 emissions. The result is while small eco-friendly vehicles have become reality cheaper; the more polluting 4WD- vehicles on the other hand, have become more expensive.

V. The penalty point system

The first of September 2005 a new penalty point system took effect. It is used for dangerous violations of the Traffic Regulation. The change in the law means that in addition to a fine, the driver also get one so called penalty point.

If a driver get one penalty point, it is registered by the police and if a driver get three penalty points within three years, the driving license is conditionally suspensed. Each point is valid for three years, and is then deleted. Young drivers only get two points before the driving license is suspended.

The first year after the penalty point system took effect the result was a remarkable decrease in serious car accidents. However today, two years after the introduction of the system, the accident rate seems to increase again to a “normal” high level.

VI. Road death statistics

The statistics shows that 306 people were killed in the traffic in 2006. That is 25 less traffic deaths than in 2005. In Denmark we have to go back in history to 1937 in order to find a lower number of road deaths.

The situation with a low number of road deaths in 2006 has unfortunately changed a great deal in the first half of 2007. This year 2007 until the date of this report - 21 September 2007 - 272 people has been killed in the Danish traffic. Thus, unfortunately it is very unlikely that the 2006 record low number of traffic deaths will be beaten in 2007.

Spain

I. Market developments in 2006

At the close of 2006 inflation stood at 2.7%, the lowest growth rate in the last three years, thanks to the moderation in the cost of food and energy products, according to data supplied by the National Statistics Institute (INE).

On the other hand, this optimistic panorama as regards the Spanish "IPC" or retail price index was only flawed by the differential in costs with the "euro zone" (which still lies at around one per cent). This, in spite of now standing under one percent, still has high values (0.8%, which is nevertheless the shortest gap since April 2004) and entails «a clear drop in competitiveness», according to the CEOE employers' organisation and the Chambers of Commerce.

Spain's economy, like its population, is the fifth biggest in the European Union (EU) and in absolute terms the eighth biggest economy in the world. The GDP of Spain stood at 976.189 million euros in 2006.

The premiums in the insurance sector in 2006 grew by 7.9% and income exceeded 52,680 million euros. Premiums in automobiles reached 12,313 million euros, as opposed to the 11,742 for 2005, which means a rise of 4.9%, thus maintaining the deceleration of recent years.

In 2006 insurance companies assigned around 9,045 million euros –5,400 million in 2005- to cater for half a million victims with personal injuries, 10 per cent of whom needed hospital admittance for an average time of ten days, and for repairing damages.

Preliminary trends noted during the first few months of 2007.

The Retail Price Index (IPC) dropped point seven per cent in July as compared with the previous month, while the interannual rate (last twelve months) dropped by point two per cent to 2.2%, the lowest rate since March 2004, bringing Spain nearer to the European convergence levels, according to data from the National Statistics Institute (INE). This figure placed the price differential with the European Union at 0.5%.

The Ministry of the Economy and Treasury has stressed that this is the lowest IPC level in a month of July since 1999, for which reason it classified this as "positive".

The premium turnover estimated as of 30th June 2007 was 28,722 million, which meant an 11.1% rise in respect of the same period for the previous year. Non-life premiums rose by 5.8%, until reaching 16,422 million and those for life increased by 18.9%, standing at 12,300 million.

As regards automobile insurance, this underwent a 3.6 per cent increase during the first six months of 2007 in respect of the same period for the previous year, according to the estimations of the research association "Investigación Cooperativa entre Entidades Aseguradoras y Fondos de Pensiones" (ICEA). The rise was moderate, for which reason the deceleration tendency mentioned above has been maintained.

II. Important events during the year

II.1 Legislative and statutory

On 28th June 2007 Parliament passed the Draft Bill modifying the Newly Recompiled Text of the Law on civil liability and insurance in motor vehicle circulation.

The most noteworthy aspects of this Law, which stems from transposing Directive 2005/14/EC (Fifth Motor Insurance Directive) of the European Parliament and Council, dated 11th May 2005, to Spanish Legislation are as follows:

New limits of compulsory insurance

Will not come unto force until 1st January 2008:

- Personal injuries: 70 million € per loss, whatever the number of victims.
- Damages to goods: 15 million € per loss.

Normal base concept

The general principle involved is that of the vehicle registration number, considering that this is normally based in the territory of the State to which this corresponds. However, to avoid any problems arising in cases of provisional or temporary registrations and above all, in cases in which it is impossible to identify the vehicle or when this has false plates not belonging to the vehicle, a criterion of territoriality in the place of the accident has been opted for.

Subrogation power

The elimination of the Insurer's entitlement to subrogation for causes envisaged in the contract entails a major regulatory modification, only envisaging this subrogation possibility for the causes laid down in Act 50/1980 of the Insurance Contract. However, it also allows subrogation on grounds envisaged in the contract in the event of the vehicle being driven by persons without a driving licence, which constitutes the sole case envisaged of subrogation for contractual and not legal grounds.

Offer and justified reply

With the new regulation two new concepts are brought in – offer and justified reply, which have to be issued by the Insurer in a period of three months from reception of the damaged party's claim. Both cases are governed as follows:

The approval of Act 21/2007 has given rise to controversial questions both through its conceptual construal and through the application of the legislation itself. For all these reasons Unespa is paying special attention to the regulatory development of the aforementioned Law.

The licence points system was one year old in Spain in July, and the balance has been partially positive: serious accidents have dropped, but less serious accidents have increased.

II.2 Market practices

The good results as regards loss ratio over the last few years have generated a much more competitive market with a drop in the average premium for automobiles.

As a result of the implementation of the points system, a large number of insurance firms are marketing cover for withdrawal of the driving licence, guaranteeing payment of compensation to the insured when they have had their licence confiscated or guaranteeing payment of compensation in the event of taking courses for partial point recovery, on condition that the results of these are satisfactory.

Evolution have been noted in the following field:

- establishment of codes of good practice
  UNESPA has promoted and approved Guides for Good Practice, Governance and Transparency, which have the sole aim of acting as guides to be individually adopted by insurance firms working on the Spanish insurance market, if they consider this fit, freely and voluntarily.

  The principles of these Guides will be applied regardless of the legal and regulatory obligations which are already being complied with by insurance firms based on our current legal system.

- development of special procedures for bodily injuries, particularly for the most seriously injured victims
  In 2005/2006 the System for automatic management of healthcare payments was developed, this project becoming really established in 2007, with the following aims:

  - Automation of information exchange between Healthcare Centres and Insurance Concerns for managing payments of health benefits to those injured in traffic accidents.
  - Electronic invoicing with Healthcare Centres.

  As regards the functionalities these can be summed up as follows:

  - Transparency in follow-up of invoicing and payment
  - Smoothing out administrative management and cost reduction.
  - Access to real balances by concerns and healthcare centres.

  Furthermore, during 2007, Unespa has started to develop an I.T. service for automation of settlements in accidents with personal injuries between insurance concerns (SDP).

  The SDP has the aim of optimising the process for information exchange and giving better service to the injured by speeding up the processing.

  The service will be computer-compatible with the SDM service (automated management and loss application) so that insurance institutions do not have to perform new computer developments.

  The SPD will concentrate on:

  - Processing of losses between concerns by amicable channels
  - Information exchange
  - Recovery and expense liquidation
  - Compensation for the injured

  The project is expected to both be completed and got under way in the first quarter of 2008.

II.3 Developments in Motor Liability reinsurance

Concerning unlimited cover, reinsurers must adapt to the new limits of compulsory insurance.

III. Foreseeable future developments

III.1 Effect of the single market and deregulation

The Act of 28th June 2007, mentioned above, has given rise to controversy both due to its conceptual construal and through the application of the Rule itself. For all these reasons UNESPA is paying special attention to the regulatory development of the aforementioned legislation.

III.2 Market structures and practices

See II.2. and in particular with regard to the relationship with motor manufacturers and repairers

The relationship between manufacturers and car repairers is fairly close.

As regards the composition of distribution of automobile insurance as compared with previous years, this involves few variations, and can be summed up in the following comparative chart (2005/2006):

Distribution of most insurance

- Agents: 40.48%, (1.6% increase in premiums as compared with the previous year)
- Brokers: 30.37%, (7.30% increase in premiums as compared with the previous year)
- Bank/Savings bank: 2.88%, (12.87% increase in premiums as compared with the previous year)
- Electronic commerce: 1.57%,(12.81% increase in premiums as compared with the previous year)
- Company offices: 9.06%, (43.46% reduction in premiums as compared with the previous year)
- Telephone sales: 14.86% (55.88% increase in premiums as compared with the previous year)

Crime and fraud prevention policies

Fraud-prevention policies are customary in both private enterprise and in the Administration.

This struggle concentrates from competitions for detection of fraud; specific commissions, such as the one existing at Unespa working on its prevention, and a major increase in police checks, both nationwide and in autonomous communities and of course there is close cooperation between state security and police forces.

Development of electronics and telematics on board of vehicles

It is becoming increasingly common for new generation vehicles, particularly higher range ones, to have GPS devices fitted to help location of the vehicles. There has also been a major demand for said devices to fit these to older vehicles on the roads.

Insurance companies make adjustments to the premiums for vehicles carrying these devices.

III.3 Follow up of the consequences of the entry of 10 new Member States into the European Union

The entry of ten new members in the European Union will doubtlessly have consequences from the insurer's standpoint and very particularly in that of vehicles, as there is expected to be a major influx of vehicles of citizens of these nationalities which are often not in a fit condition.

Apart from this attention will need to be paid as to the form of settling accidents of such vehicles in these countries which have been registered in the other European Union countries. Special attention should be given to compliance of community norms; Directives, agreements such as the Multilateral guarantee agreement, etc.

Finland

I. Economic market developments in 2006

In 2006 GDP increased by 5.5 %.

According to forecasts, the 2007 GDP is expected to increase by 3.1 % and the average unemployment rate is expected to decrease to 7.1 %.

The 2006 premium income in respect of Motor Vehicle Liability Insurance was about 697 million euro, which increased 4.9 % compared to the previous year. The number of registrations of person cars decreased about 1.7 %.

As to Motor Vehicle Insurance the premium income was 460 million euro showing an increase of 4.3 %.

In Finland, the number of traffic accidents increased by 2.9 %. The number of fatalities was 270 (266 in 2005) and there were 119,608 (116,236) reported Motor Liability claims, respectively the number of motor vehicle claims increased by 9.4 % and was 288,503 (263,533).

The Total sum of claims paid in respect of Motor Liability Insurance was approximately 420 million Euro, which was increased 8.4 % compared to 2005. The corresponding sum of Motor Vehicle Insurance increased about 11.4 %. Claims adjustment costs are included in these numbers.

II. Important events during 2006

In Motor Vehicle Insurance, the companies have had product development to some extent. 50 % of motor insurance policies are sold by car dealers or inspection stations and some 30% by insurance companies.

On-line vehicle registration done by insurance companies was nearly 16 % of all motor vehicle registrations in 2006.

Temporary insurance cover for the transit licence of a motor vehicle is granted by the Finnish Motor Insurers´ Centre. About 110128 insurance policies were issued and 58 claims reported in 2006.

II.1 Claims representatives

The Finnish Information Centre, compensation body as well as Claims representatives have been acting as required by the 4th. Motor Insurance Directive. There have been richly 150 incoming as well as outgoing inquiries between Information Centres. Claims representatives settled 417 claims, which is very similar to last year.

II.2 Modernization of the Finnish Liability Insurance Act

The Ministry of Health and Social Affairs has continued to revise the current Finnish Motor Liability Insurance Act. The fifth Motor Insurance Directive was implemented on the 4th of July 2007.

II.3 Traffic Safety Work

Traffic safety work of the Finnish Motor Insurers' Centre was carried out by the Traffic Safety Committee of Insurance Companies (VALT). Traffic accidents were investigated statutorily together with the authorities in the whole country. 20 investigation teams investigated all fatal traffic accidents and some other accidents according to the standardized investigation method improved in 2003. Themes for the on-going studies and reports included among other things accidents within car parks, SUV-accidents, safety of children in cars and accidents of single carriageway main roads. International cooperation concentrated on SafetyNet-project. VALT also took part in the European Transport Safety Council's (ETSC) work.

III. Foreseeable future events

Motor Insurance premium rating and product development will strongly continue increasing competition between insurers.

Cooperation between insurance industry and automobile market as well as other interest groups will continue to an increasing extent.

The Vehicle Administration Centre is implementing the reorganizing of their services including the registration system this autumn. The reformation will influence the on-line registration in the insurance company´s office.

France

Motor insurance turnover totalled €17.8 bn. After outlining the latest claims and market trends in 2006, we will refer to the main developments in 2006 on the motor insurance market: the reform of the recovery of social security bodies, the reorganisation of the profession of motor expert, licensing in respect of End of Life Vehicles (ELV), the launching of action to combat the "souping up" of mopeds.

I. Market

I.1 Number of vehicles on the road

The number of vehicles on the road in France still comprises 36.7 million 4-wheeled vehicles and 2.5 million motorcycles and mopeds as at 31 December 2006.

In terms of structure, the age of the vehicles on the road has increased compared with 2005 (8.1 years) with 34% of vehicles more than 10 years old. The importance of diesel vehicles in private and commercial cars continues to increase (49.8 % in 2006 compared with 47.7% in 2005).

After 2005 in which registrations of vehicles seemed to pick up (+ 3%), 2006 again recorded a fall of -3% in sales of new private cars. However, a reassuring increase was noted in respect of commercial vehicles (+4%). Registrations of new private and commercial cars represent more than 2 million vehicles, compared with 5.4 million for second hand private and commercial cars (+ 1.5%), i.e. 18.1% of the vehicles on the road.

2006 was characterised by an increase in households owning motor vehicles (82% compared with 81.2% in 2005), mainly as a result of an increase in multi-vehicle households: more than 35.7% of households had at least 2 vehicles whereas there was a fall in single-vehicle households (46.3% compared with 46.4% in 2005).

I.2 Premiums, cover and guarantees

Motor insurance premium levels are falling (-0.4%). This fall is due in particular to the rating reductions applied in 2006. The improvement in claims experience and the keen competition on the motor insurance market has led to a reduction in premiums, especially for motor liability cover. This reduction in premiums is clearly less than household consumption (+3.3%). Motor insurance premiums therefore amounted to almost €17.8 bn in 2006 with the following breakdown: €14.5 bn for "individual/personal" premiums and €3.3 bn for "business" premiums.

Insurance companies are seeking to expand the level of take-up of optional cover. It remains at around 81% for theft and has increased slightly to reach almost 60% for vehicle damage cover. In addition, out of a sample of 10 million vehicles, the take-up level for optional individual accident insurance, which provides drivers with cover under common law if they are victims of an accident which they caused, was 90% in 2006.

I.3 Benefits

2006 was characterised by a marked improvement in the frequency of claims for material damage or bodily injuries. The main factor in this improvement is the reduction in the traffic recorded in 2006, which is a direct consequence of the poor weather conditions and the high price of fuel.

The amount of benefits paid out in 2006 (not including management costs) has increased by 1% compared with the previous year (€14.8 bn in 2006 compared with 14.7 in 2005). The combined loss ratio amounted to 84% of premiums in 2006 for all covers, i.e. a fall of one percentage point compared with 2005. A quarter of the €14.8 bn of benefits relates to payments for bodily injuries and three-quarters is devoted to compensation for material damage.

I.3.1 Accident injuries

The reduction in accident injuries recorded by the police, which has been observed since 2002, continued in 2006 (-3.9%,i.e. 81,264). The number of fatalities fell by 11.6 % (4,703) but the number of injuries fell by only 5.4 % (102,291).

The frequency of bodily injuries indemnified under the liability cover has improved by -5.5%. It should be pointed out that the latter covers a much wider range of claims, in particular minor accident injuries for which the police are not automatically present at the scene of the accident and cannot therefore draw up a police report. Hence the number of victims of bodily injuries can be estimated at about 186,000 in 2006 from insurance company records.

The average cost has continued to increase at the same rate as in previous years, i.e. about 8%, which does not permit any reduction in the global cost.

I.3.2 Material damage

As in the case of bodily injuries, the measures taken by the authorities have had repercussions on material damage. A reduction in frequency of 6% had already been experienced in 2002, with a peak in 2003 of - 9%. Confirming the slowdown which began in 2004 (-4%) and 2005 -3%, the frequency of material damage claims fell again by -5% in 2006.

At the same time, we have continued to record a minimal increase in the average cost of 2%, i.e. €1,490, despite a nevertheless significant increase in the cost of paint materials (+6.8%), in hourly labour rates for bodywork (+5.2 %) and spare parts (+4.2%).

The difference in the trend noted between prices and motor repairs and their average cost can be explained by changes in the repair periods but primarily by the downward trend in the seriousness of impacts.

I.3.3 Theft

The frequency of thefts continued to improve significantly in 2006 with a further fall of 10.8%. On the other hand, the proportion of vehicles not recovered has deteriorated significantly and is at its highest level for ten years, at 37.6% of the vehicles stolen in 2006, i.e. more than 67,000 vehicles.

II. Developments

II.1 Developments in the compensation for bodily injury

The Social Security Financing Act No 2006-1640 for 2007 reformed the recovery of social security bodies by introducing recourse on an item-by-item basis with priority to be given to the victim. To this end, Articles L. 376-1 of the Social Security Code and 31 of the law of 5 July 1985 were amended. Loss elements of a personal nature (pain and suffering) remain excluded from the recourse accorded to direct payment institutions, except where the direct payment institution can establish that it had indeed previously paid the victim a benefit which undeniably provided compensation for an element of pain and suffering. The drafting of the text does, however, raise some difficulties of interpretation.

The standard appraisal duties under common law, drawn up in 1994 have been updated to take into account developments in the legislation governing compensation for bodily injury. These new duties are applicable from 31 December 2006.

II.2 Reorganisation of the profession of motor expert

Decree No 2006-1808 of 23 December 2006 on the organisation of the profession of motor expert has reorganised the conduct of the profession of motor expert.

The text, introduced into the Highway Code, clarifies the duties of the motor expert by outlining his specific obligations:

- to indicate the price of his service to any person who wishes to avail himself of his services;
- to give his conclusions within the limits of his duties;
- to inform the owner without delay of any deficiencies, lack of compliance of the vehicle or approval of accessories likely to place the life of the driver or other persons in danger;
- to send the owner of the vehicle a copy of his report – which includes certain compulsory notes - and any supplementary report;
- to inform the owner and the professional of any dispute in relation to the technical conclusions or the cost of the damage or repairs

The decree also facilitates the organisation and operation of the National Commission of Motor Experts. It is made up of 14 members, 2 of which are representatives of insurance companies designated by the Ministry of Economic and Financial Affairs, with the latter being responsible for:

- managing the annual list of motor experts;
- exercising disciplinary powers in respect of motor experts in cases of negligence or a failure to comply with the professional rules of conduct;
- to give its opinion if consulted by the minister responsible for transport on any question relating to motor surveys and to the general organisation of the profession of motor expert.

At the same time, the two unions of motor experts (CSNEAF and CSNEAMI) have joined forces and created a new professional organisation, ANEA, Alliance Nationale des Experts Automobile [National Alliance of Motor Experts] on 9 December 2006.

II.3 Licensing for End of Life Vehicles (ELV)

With a view to setting up the legal framework made necessary by Directive No 2000/53 of 18 September 2000 on end-of-life vehicles transposed into French law by Decree No 2003-727 of 1 August 2003, the Decree of 15 March 2005 sets out the regulations to which operators of installations for the storage, clean-up, dismantling, breaking up or wrecking of end-of-live vehicles are subject in order to obtain the prefectoral licences allowing them to carry out their activities. This text came into force on 24 May 2006 so that only licensed businesses are entitled to operate in this area.

II.4 The battle against the “souping-up” of mopeds

The FFSA signed a partnership agreement with the two-wheeled branch of the National Council of Automobile Professionals (CNPA), the professional organisation representing motor traders, within the framework of an operation called “Moped Safety Challenge”. This operation began with the signature of a charter under which members or non-members of the CNPA undertake not to market “souped-up” vehicles or fit “souping-up” devices. Since summer 2006, the partner dealers have distributed folders to young people and their parents, when selling mopeds, which are intended to make them aware of the sanctions applicable if the moped is “souped up” or made more powerful.

United Kingdom

I. Economic market developments 2006

I.1 Market statistics

In 2006, the latest year for which market figures are available, total net written premiums for motor decreased by 1.2% to £10,295 million. Total outgoings for the motor sector (claims, commission, expenses and changes in reserves) decreased by 1.0% to £10,503 million. In 2006 the underwriting loss increased to £204 million, compared with a loss of £189 million in 2005.

According to the widely quoted AA British Premium Index, there has been a rise of 6% in average motor premiums in 2006 as against a fall of 3.6% in 2005.

Private car claims frequency amounted to 18.0% in 2006 (17.8% in 2005). The claims frequency in respect of commercial motor business has fallen again, to 28.8% in 2006 (30.8% in 2005). There was a further increase in the cost of motor theft claims, rising by just under 4% to £519 million in 2006. The number of settled theft claims was down 3% to 291,000 in 2006 compared to 300,000 in 2005.

Current claims data shows a positive outlook for 2006 results, with claims ratios remaining stable against an increase in exposure over 2005. Future trends will depend on the degree to which claims and premium inflation changes.

RBS group remains the largest private car insurer in 2006. Five insurance groups account for 65.5% of the private car insurance market. The market share of the top five commercial motor insurers also remains high, at over 64.9%. Independent intermediaries wrote 35% of motor insurance and direct sales accounted for 44%, the remainder being sold via company agents, banks, building societies and others.

I.2 Trends in market structure

There are over 600 insurance companies authorised to transact general insurance business in the UK. In practice, there are around 67 companies and 13 Lloyd's syndicates actively transacting motor business.

II. Important events and issues

II.1 Uninsured driving

There has been good progress in tackling uninsured driving, including use of the Motor Insurance Database (MID) to target insurance evaders by means of roadside cameras.

The new powers to confiscate uninsured vehicles have been warmly welcomed by the police; thousands of uninsured vehicles have been seized and destroyed. The initiative has attracted good publicity, which should act as a further deterrent to uninsured drivers.

The Sentencing Guidelines Council have consulted on revised recommendations on the penalties that magistrates should impose for a wide range of offences. The ABI responded, suggesting that magistrates should be encouraged to use the wider range of powers available to them when sentencing uninsured driving offenders, as the relatively low fines typically handed down do not act as en effective deterrent. The powers include community penalties, which are considered to be more effective. The revised guidelines are due to be published before the end of 2007.

Legislation has been passed providing for a new offence of being the keeper of an uninsured vehicle (i.e. in addition to the offence of being the user of an uninsured vehicle). The keeper of a vehicle is the person listed on the Government's vehicle's register. The new offence will enable keepers of uninsured vehicles to be prosecuted automatically from the record, without the need for offenders to be detected at the roadside. The new offence is likely to be implemented in 2008.

The UK insurance industry has been instrumental, in collaboration with the CEA, in persuading the European Commission to include the issue of cross-border uninsured driving in its forthcoming work plan.

II.2 Claims environment

In April 2007 - following discussions with key stakeholders, including the ABI - the Government consulted on its proposals for a new claims process for personal injury claims. The new process focuses on:

- Early notification of a claim via a universal claim form
- Claimant solicitors undertaking no work while the defendant investigates the claim
- Early acceptance or denial of liability, within a fixed time period
- After the event insurance only being take out after a denial of liability, or where quantum is in dispute in claims of £2,500 or above
- An improved process to agree quantum
- The use of District Judges to resolve quantum disputes
- Fixed legal costs for filling in the claim form, for the work on evaluating the claim, and for negotiating the final settlement.

The Government is currently considering the responses it received to the consultation, and intends to publish its decision document in October. The ABI is very supportive of the Government's proposals, and will be working with officials closely over the coming months to aid their implementation.

There is also focus on reforming rehabilitation to improve the quality and quantity of rehabilitation and occupational health care in the UK. The ABI is currently engaged with the UK Government in finding ways to promote rehabilitation through the tax system, promoting rehabilitation with employers, improving health services' response to workplace health and proposals to provide accreditation of services. The ABI is working with a broad range of stakeholders at UK level.

Research commissioned by the ABI into the impact of the possible harmonisation of civil liability of drivers for injury to vulnerable road users (e.g. pedestrians and cyclists) found that: there would be no significant road safety benefits from introducing such a regime for vulnerable victims in the UK; that providing compensation to those at fault in accidents would be contrary to the Government's approach to rights and responsibilities; and that such an approach would encourage frivolous and fraudulent claims.

There are concerns that the increased complexity in the design and build of today's motor vehicles will create difficulties for repairers, particularly in the independent sector, to make good quality and safe repairs to accident-damaged vehicles which are the subject of insurance claims. The ABI is currently investigating what leverage can be applied to vehicle manufacturers to make repair methodology more widely available, including the possibility of reflecting this in the insurance group rating system (see paragraph 2.15 below).

II.3 Regulatory environment

All of the necessary changes to implement the EU Fifth Motor Insurance Directive in the UK were brought into force on or before the final deadline of 11 June 2007. Following consultations, the Government increased the minimum third party property damage amount from £250,000 to £1,000,000 for any one accident with effect from 11 June 2007. No change was necessary in respect of bodily injury, as the existing requirement is for unlimited liability.

The UK Government confirmed its commitment to exercise the Member State option under the Equal Treatment Directive to permit gender-based differences in motor insurance premiums and benefits. The ABI is currently preparing tables to meet the requirement for the publication of relevant data to support the opt-out.

Following ABI lobbying, the Department for Transport issued a consultation document on a proposal to allow insurers to deliver certificates of motor insurance to customers electronically. The proposal was well received. The Department is currently preparing the necessary regulations to remove the legal obstacles to delivery of certificates by this method. As well as benefiting customers, the facility will result in cost savings to insurers.

The EU Commission has noted that there is currently no legal requirement for trailers to be insured when they are not attached to a towing vehicle when in the UK. The ABI is seeking a pragmatic solution in consultation with the Department for Transport.

II.4 Risk pricing

Work has continued on the review of the car group rating system, the process that seeks to evaluate the relative risk characteristics of different car models for the benefit of insurance underwriters. The review has been prompted largely by the need to ensure that the group rating system keeps pace with changes in vehicle design and construction, and recognises the welcome overall reduction in the incidence of theft claims in the UK over the past 10 years. The new system came into force in January 2007 and will be run in parallel with the existing system for the time being. One of the main changes has been an increase in the number of car rating groups - from 20 to 50. A review of the equivalent rating system for light commercial vehicles is also underway. This is due to be completed by the end of 2007.

The ABI has produced a consumer fact sheet, explaining how motor insurance is priced, and suggesting ways that motorists can improve their road safety and save money. The fact sheet will be published in November.

II.5 Tackling fraud and crime

The Code of Practice for the disposal of motor vehicle salvage has been revised to take account of new regulatory requirements and to ensure that it continues to meet the needs of interested parties. The Code gives guidance on steps to be taken to prevent the illegal use of vehicle salvage and the return of badly repaired vehicles to the road, thereby presenting hazards to public safety. The revised Code, which is supported by the ABI and a number of other organisations, including salvage professionals, the police and Government agencies, was launched in March 2007.

II.6 Road safety

The Road Safety Act came into law in November 2006. The Act addresses a number of issues, including drink-driving, speeding, driver training, penalties for foreign drivers who commit offences while in the UK, and increased penalties for using a hand held mobile ‘phone while driving. It also introduces the new offence of keeping a vehicle without insurance, referred to in paragraph 2.4 above.

Work has continued on examining the problems faced by young and older drivers in gaining access to the motor insurance market. Young drivers face high premiums principally as a result of their high collision rates, while older drivers have traditionally been restricted in their choice of insurance companies.

The ABI has continued to lobby the Government to introduce a range of measures to improve young driver safety: a 12-month minimum learning period, a structured learning programme, and passenger restrictions. In July 2007, the Transport Select Committee published a report of its inquiry into novice drivers. It supported all the ABI's recommendations. The Government is due to issue a consultation on reviewing the way people learn to drive this autumn.

Older drivers' access to the insurance market has also been the subject of ABI work. In March 2007, the ABI set up a task force to help older customers shop for motor and travel insurance. Cover for older people is available, but a minority of people do experience difficulties finding it. The task force will recommend how to implement a system to help older customers get the insurance they need. The task force is due to report in the autumn.

Following proposals set out by the ABI in 2006, the DVLA has also committed to review the medical licensing system of drivers. The current system is not sufficient in identifying unsafe drivers and keeping them off the road. A consultation on a new system is due in the autumn.

There has been concern for some time that foreign drivers are having a negative impact on road safety in the UK. The ABI has undertaken research to understand the extent of the problem, and to devise a set of proposals to tackle it. The findings of our research will be published in November.

A particular concern is that the UK has seen a considerable increase in accidents involving vehicles from Accession countries. Between 2001 and 2006, the number of UK accidents involving foreign vehicles generally increased by nearly 6,300. Of that increase, the eight 2004 new Accession countries from Eastern Europe accounted for 5,333 (85%). The enclosed table shows the top 28 countries by percentage.

The ABI was represented on the Motorists' Forum's road pricing working group. The Motorists' Forum is an independent body advising the Government on transport policy. The working group was set up to examine how national road pricing could be delivered through industry. The final report to the then Minister for Transport incorporated three propositions put forward by the ABI regarding using insurance to deliver national road pricing: 1) telematics-based insurance will not achieve universal coverage; 2) insurers want insurance to remain their core business; and 3) insurers want access to the data at a fair price.

Greece

I. Economic market developments in 2006

I.1 The economic environment

The growth rate of the Greek economy remained high in 2006, in succession of the last ten years when the average growth rate of the Gross Domestic Product (G.D.P.) reached 4.1%. According to the latest provisions of the National Statistical Service, the 2006 G.D.P. average growth rate was 4.3%, compared to 3.7% in 2005.

The average rate of inflation, on the basis of the Harmonized Index of Consumers Prices (H.I.C.P.) came to 3.3% in 2006, compared to 3.5% average rate for 2005.

Finally in the Athens Stock Exchange Market (A.S.E.), the general price index at the end of December 2006 was 19.9% higher than the level of the index at the end of December 2005.

I.2 The insurance market developments

During 2006, although 90 insurance enterprises were present in the Greek insurance market (63 of them were established in Greece and 27 were branches of foreign insurance companies), only 78 of them were acting insurance underwriting (63 of them established in Greece and 15 were branches of foreign insurance companies).

In the non-life insurance sector 62 insurance enterprises were active.

Total direct written premium reached 4.33 billion euro during 2006 instead of 3.92 billion euro in 2005, showing an annual growth rate of 10.45 % (the previous year growth rate was 8.27%).

Non-life insurance premium reached 2.06 billion euro instead of 1.99 billion euro in 2005, showing an increase of 3.6% (the previous year growth rate was 4.91%).

As a result the share of non-life premium to total direct written premium for 2006 reached 47.53% (50.68% in 2005).

I.3 Motor insurance branch in 2006

In motor insurance branch 44 insurance enterprises were active during 2006 (41 of them were enterprises established in Greece and 3 were branches of foreign insurance enterprises).

Motor insurance branch is the most significant non-life insurance class, representing 59.74% of direct written non-life premiums.

The motor third party liability premiums reached 942 million euro during 2006, showing a decrease rate of -0.44% over the previous year, while motor vehicles in circulation in Greece increased by 5.35% according to the latest estimations. This implies that probably the average m.t.p.l. premium per vehicle decreased during 2006. On the other hand the premiums for supplementary covers reached 288.5 million euro, showing an increase of 6.25% over the previous year.

The top five Insurance Enterprises active in motor third party liability insurance during 2006 accounted for 39% of the year's m.t.p.l. premiums, while the top ten accounted for 62,9%.

As a general conclusion we should mention that according to annual published balance sheets, M.T.P.L operating account was still in deficit during 2006, taking into consideration the operational expenses as well

I.4 Basic figures for motor insurance in Greece

The following figures are based on a statistical analysis of the 86.39% of the total motor premium volume, according to data provided by our member-Companies.

Basic Figures for motor insurance in Greece (Figures in euro)	2005	2006	% Change
Total motor premiums	1,136,828,262	1,063,097,210	-6.49%
of which			
- motor T.P.L.	848,338,615	771,506,264	-9.06%
- supplementary covers	288,489,647	291,590,946	1.08%
Paid claims	842,780,035	787,220,292	-6.59%
of which			
- motor T.P.L.	743,240,501	682,678,310	-8.15%
- supplementary covers	99,539,534	104,541,982	5.03%
Outstanding claims at the end of the year	1,348,663,413	1,392,351,677	3.24%
of which			
- motor T.P.L.	1,304,361,090	1,340,147,498	2.74%
- supplementary covers	44,302,323	52,204,179	17.84%
Total number of claims reported within the year	476,338	449,368	-5.66%
Average number of vehicles insured per year	4,689,186	4,387,973	-6.42%
New vehicles put into circulation (*)	445,985	451,331	1.20%
Total vehicles in circulation (*)	6,640,613	6,995,659	5.35%
Averange cost of claim for those claims reported within the year	1,613	1,686	4.53%
Average net written premium	242	242	0.00%
Frequency of claims per 1,000 insured vehicles	101.58	102.40	0.81%
Loss Radio for motor (all covers)	86.91%	85.70%	-1.39%
- only T.P.L.	105.05%	103.58%	-1.40%

* Ministry of Transportation & Communication

II. Important events during the year

II.1 Legislative and statutory

II.1.1 Motor third party liability

Codified Law 489/1976 on the compulsory insurance of civil liability arising from motor accidents has been radically amended by law 3557/2007 which has been published on 14.05.2007 (Government Gazette A΄ 100).

The most significant modifications of the recently amended law in comparison to its previous version are the following :

- Extension of the limitation period for the injured party to raise a direct action against the insurer to five (5) years from the date of the accident from a two (2) year period provided in the previous version of the law.
- In the event that a vehicle was insured against the same risks by several insurers, the insurer who is exclusively liable for compensating the injured third party is the one who has insured the car most recently, given that the pre-existing policies are ipso iure invalid.
- Modifications regarding the succession in the insurance relationship in case a policyholder or the insured is succeeded by another party. According to the provisions of the new law, in the case where a policyholder or the insured is succeeded by another party and there is a new insurance contract for the same vehicle following such succession, the only liable for compensating the injured third party is the most recent insurer, given that the pre-existing policies are ipso iure invalid. Additionally, in case that no new insurance contract has been entered, the existing policy is valid until its termination date.
- Reformation of the regulation regarding insurer liability if an accident is caused by a motor vehicle with a trailer. According to the new provision both insurers will be liable. It will be therefore upon the victim's decision to choose whether he is going to be compensated upon the insurance cover of the tractor or its trailer.
- Amendment of the notification process of cancellation, expiry or suspension of the insurance policy in the context of insurance undertakings' capability of pleading the cancellation, expiry or suspension of the insurance policy against injured third party.
- Specific and exclusive enumeration of the exceptions of the insurance policy covering civil liability arising from motor accidents in the context of insurer's right to bring an action regarding the excluded damages against the insured, the policyholder and the vehicle's driver. These exceptions are : driving under the alcohol influence, lack of driving license, unlicensed use of vehicle. It should be noted that the insurer may not oppose these exceptions against the claim brought by the injured third party. Additionally, according to the provisions of the new law, no other exceptions of the insurance policy covering civil liability arising from motor accidents can be provided by general policy conditions.
- Statutory adjustment regards the payment of indemnity to the injured third party or insured. According to this provision, in cases where the payment of indemnity is over Euro 100, the payment can only be made by check payable to the injured third party or insured, or deposited directly into the bank account of the injured third party or insured.

II.1.2 Road assistance

In March 2007 a draft law in regard to Road Assistance was published by the Greek Ministry of Transport and Communications generating great upheaval in the Greek insurance sector of road assistance.

The said draft law suggested material alterations to the conditions under which insurance undertakings may pursue business in Greece in the class of road assistance. In June and later in July 2007, following the strong reaction of the Greek insurance market, the Greek Ministry promoted two revised drafts law, though without changing the philosophy of the initial one. Recently, because of the national elections of the 16.09.2007 the public consultation regarding the afore-mentioned draft law has temporarily been put on hold. The discussion may be resumed after the election.

The draft law in its last version introduces new regulations which will incur serious negative implications for the Greek insurance sector of road assistance and mostly as regards free movement of undertakings, free provision of services, free setting up of tariffs and premiums, and generally as regards rules on competition.

Finally, it should be noted that this matter was brought to the attention of CEA by the Hellenic Association of Insurance Companies along with a request for support.

II.2 Market practices

II.2.1 Obligations of intermediaries – motor official dealers and bankassurance

Presidential Decree 190/2006 regarding the transposition of the Directive 2002/92/EC on insurance mediation into the Greek legislation, which was published on the 14.09.2006 (Government Gazette A 196), lays down rules for the taking up and pursuit of the activities of insurance and reinsurance mediation by natural and legal persons which are insurance intermediaries.

According to the provisions of the Presidential Decree 190/2006 (article 2 par. 7), these rules shall also apply to motor official dealers, banks and any other person (natural and legal) who carries on the activity of insurance mediation in addition to his principal professional activity, if the insurance is complementary to the goods or services supplied in the framework of this principal professional activity.

II.2.2 System of Direct Settlement Agreement (D.S.A.)

The system of Direct Settlement Agreement (D.S.A.) is considered to be successful as a significant increase of cases settled by D.S.A. was marked last year. Insured are considered to be satisfied as they are compensated swiftly and without facing any difficulties by their own company. Specifically, in 2006 almost 42,73 % of the accidents which could have been settled according to this Agreement, were finally settled by the D.S.A..

III. The 5th motor directive

As regards the progress of the implementation in Greece, it should be noted that the Directive has not been transposed into Greek legislation until today. So far no public draft has been announced. The competent authority (Ministry of Development) has not yet expressed its official intention regarding the establishment of the minimum amounts of compulsory cover in case of personal injuries (e.g. 1,000,000 euros per victim or 5,000,000 euros per accident) or other significant issues of the implementation (establishment of a transitional period e.t.c.).

Furthermore, Hellenic Association of Insurance Companies has expressed itself in favour of the establishment of a minimum amount of cover of 1,000,000 euros per victim in case of personal injuries. With a view to facilitating the introduction of the above mentioned amount, our Association is also convinced that a transitional period of five years from the date of implementation of this Directive should be provided by the Greek Law.

Croatia

I. Market developments in 2006

Basic indicators		2006	Index 06/05
Gross domestic product at current market prices (HRK millions)		250,590	109.4
Gross domestic product at current market prices (USD millions)		42,915	111.5
Gross domestic product per capita, USD		9,664	111.4
Consumer prices - Inflation		3.2	97.0
Number of employed persons (December 2006)		1,467,876	103.3
Annual average exchange rate HRK per USD		5.8392	98.6
Annual average exchange rate HRK per EUR		7.3229	99.0
Insurance premiums share of GDP (%)	Life insurance	0.86	102.4
	Non-life insurance	2.40	100.0
Insurance companies balance sheet in mil. HRK	Assets	19.662,80	118.7
	Technical reserves	14.033,18	112.4

Gross premium written by groups of classes in 2006

Code	Group of Classes	Gross Premium written (in 000 HRK)	Share %	Index 06/05
01	• Accident	500,316	6.12	106.5
02	• Health	221,466	2.71	118.3
03	• Motor Casco	959,096	11.72	110.5
04	• Railway Rolling Stock Casco	2,351	0.03	90.2
05	• Aircraft Hull Damage	34,153	0.42	95.4
06	• Sea, Lake and River Vessels Hull Damage	203,058	2.48	123.4
07	• Goods-in-Transit	71,613	0.88	111.3
08	• Fire and Other Perils	469,086	5.73	106.6
09	• Other Damage to Property	683,049	8.35	113.5
10	• Motor TPL	2,450,936	29.96	109.1
11	• Aviation TPL	2,063	0.03	183.5
12	• Marine TPL	32,227	0.39	112.4
13	• General liability	224,447	2.74	115.8
14	• Credit	98,529	1.20	106.7
15	• Suretyship	2,529	0.03	150.2
16	• Financial loss	48,769	0.60	105.5
17	• Legal protection	2,864	0.04	92.4
18	• Tourist assistance	8,541	0.10	122.6
	Total non-life (groups 1 - 18)	6,015,093	73.53	110.3
19	• Life (life insurance and annuity insurance)	2,165,061	26.47	114.2
	TOTAL (groups of classes 1-19)	8,180,156	100.00	111.3

Preliminary trends noted during the first few months of 2007.

- a considerate increase in market shares of all kinds of life insurance - within 7 months in 2007 the Gross premium written in life insurance exceeded the 2006 Gross premium written.
- an increase of unit linked life insurance shares

II. Important events during the year, in the following fields

II.1 legislative and statutory

New Acts entered into force on 1st January 2006:

1. Civil Obligations Act (Official Gazette 35/05)

2. Croatian Insurance Act (Official Gazette 151/05)
This Act comprises the former Law on Insurance Intermediaries, while the compulsory traffic insurance classes have been separated and are regulated by the Compulsory Traffic Insurance Law.

3. Compulsory Traffic Insurance Law (Official Gazette 151/05)
This Law regulates the following compulsory classes:

- Motor Third Party Liability
- Aviation Third Party Liability
- Third Party Liability in respect of Motor Boats
- Personal Accident for Passengers travelling on Public Transport.

With the new Compulsory Traffic Insurance Law the minimum values of sums insured per accident with respect to compulsory traffic insurances increased and it is expected that the amounts of compensation shall increase, too. The Law foresees a liberalization of the Conditions and the Tariffs in these compulsory classes for the 1st January 2008.

4. Act on the Croatian Financial Services Supervisory Agency
(Official Gazette 140/05)
By this Act supervision upon the financial non-banking institutions in the Republic of Croatia has been centralized.

5. Leasing Act (Official Gazette 135/06)
Regulations on the calculation and the time-limits for the payment of contributions and on the management and utilization of assets reserved for the obligations of the Guarantee Fund (OG 139/06. in force as of 1st January 2007)

II.2 Developments in Motor Liability reinsurance

According to the Compulsory Traffic Insurance Law the limits of liability of all compulsory traffic insurance lines have been raised considerably for which reason a rise of the reinsurance premiums may be expected, too.

Hungary

I. Market developments in 2006

The Hungarian economy reached a major turning point in mid-2006. The turnaround also generated serious social and economic tensions. The rate of growth, despite the European upturn, slowed down. GDP growth went down from quarter to quarter: 4.9% in the first quarter, 3.8% in the second and third, and 3.2% in the fourth, which was no longer higher than the EU average.

Inflation went through a U-curve, starting downwards and reaching a low point in February and March, but starting to rise substantially in September, mainly due to government measures (increased VAT rates, increases in household energy prices). Average inflation over the year as a whole as 3.9%.

Real wages increased by 5.4% in the first half, but the adjustment measures and inflation turned this to decrease in the final quarter by 4%, the yearly average of decrease was 3.5%. The changes of the pensions went on the similar way.

The average Euro exchange rate over the year was 263.4 HUF.

There are currently 26 Hungarian-based insurance companies operating in the country, and another two foreign companies have been granted a licence to found an insurance company. The number of mutual insurance companies remains at 35, of which 4 are members of MABISZ. Three mutual insurance companies operate third-party vehicle insurance.

The total number of insurance policies increased by 2.7% in 2006, to 13,832 thousand. Number of life insurance policies increased by 6%. Non-life insurance policies increased by 3.4% overall. The greatest increase in non-life area was in the number of cargo insurance policies, which doubled.

Insurance companies' total premium income was 830,228 million HUF in 2006, 20.9% higher than the year before.

Mandatory third-party vehicle insurance accounted for one third (33.2%) of the combined gross premium income of property and liability insurance. The vehicle segment of total non-life insurance premium income accounted for 57.1%.

Gross claim expenses (claims payment and claims reserves) increased by 4% in 2006, after a 4.9% increase a year before.

Mandatory third-party vehicle insurance premium income increased by 5.4% over the year to 6.6 billion HUF. The vast majority of the increase was due to the 4.3% increase in the number of policies. This insurance segment was the area where the competition among insurance companies was most intense.

Claims payments in the mandatory third-party vehicle insurance segment remained practically unchanged from the year before. Consequently the claims ratio decreased again from 79.4% to 75.7%, so profitability has satisfactorily progressed.

The number of claims reported to the debit of the Guarantee Fund was 6,541 in 2006, slightly decreasing (2.4%) compared with the previous year. The number of claims settled to the debit of the Guarantee Fund was 4,672, the sum of the paid compensation decreased also (by 7%).

There was also a substantial rise in premium income in the comprehensive vehicle insurance segment, if more modest than the previous year's. Premium income in this segment was 3.7 billion HUF, 3.6% higher than in the previous year. In this segment the claims ratio went up to 53.2% from 52.4%, so profitability in this segment was slightly deteriorated.

The number of requests of information and coverage, and complaints received by the Hungarian Information Centre was 6,234 (including about 10% of complaints).

The number of claims under the 4th Motor Insurance Directive suffered by Hungarian citizens was 203 in 2006 (110 in 2005, 63 in 2004). 16% these claims have been settled by the compensation Body, the rest has been settled by the insurance companies and claims representatives.

At the end of 2006, every insurance company held the statutorily prescribed reserves. Total technical reserves stood at 1,351,841 million HUF, of which 817,337 million HUF were life insurance premium reserves. Reserves in non-life segment totalled 534,505 million HUF.

II. Important events during the years

II.1 Legislative and statutory

- Work on reform of the Hungarian Civil Code took on momentum during the year, and a debate on the chapters on insurance policies and compensation.
- In June 2006 Parliament amended the Insurance Act (attain the training requirements for insurance brokers with secondary school qualifications, raised the requirements on voting capital and minimum insurance reserves).
- At the same time as the amendment to the Insurance Act, a change was made to the government decree regulating mandatory third-party vehicle insurance. This chiefly involved transplantation of 5th EU vehicle insurance directive. The Hungarian regulatory needs only minimal corrections in this regard (decreasing of the compensation limit of the personal injury to the sufficient level taking into account of the predictable changes of the exchange rate of EUR).
- On 1st September 2006 introduced the interest tax. (Certain forms of life insurance and pensions insurance remained free of interest tax, and so life insurance has gained further tax advantages.)
- The before mentioned government measures included the rising of VAT rates as well.

II.2 Foreseeable future developments

In the previous years after Hungary's accession to the EU, more than two hundred insurance companies based in the member states applied to the Hungarian financial authority (PSZÁF) registering their intention to carry out insurance companies in Hungary in the form of cross-borders services. At this moment MABISZ has two particular requests in this topic, which are now reaching the phase of information. As far as can be foreseen that this kind of progression will fasten in the future.

The progressing of the central administrative registration of vehicles makes the fight in the interest of decreasing of the number of uninsured vehicles more effective. Taking into account the factors of economic tension ("program of convergence", decrease of real wages, increase energy prices and tax, etc.) – and regarding to the fact that the insurance (including motor insurance) belongs to the easily dispensable expenses of households – we have to take precautions against the occasional increase of the number of uninsured vehicle in the future (financial supporting of the central administrative data base of the vehicles).

We are making investigations concerning the experiences of other countries in connection with direct claim settlement to be in a position to size up the pros and contras of the application of this system.

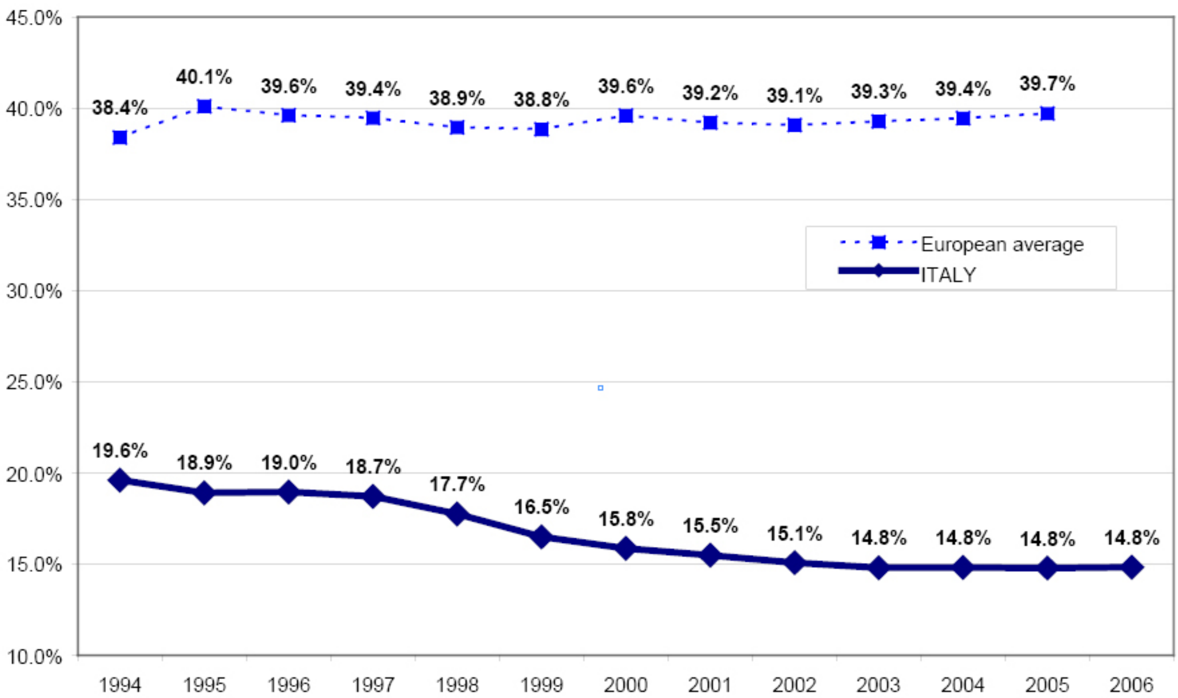
We are continuously studying the possibilities to make the term of the claim settlement – the claims under the terms of Internal Regulations and the 4th Motor Insurance Directive as well – shorter. We are making efforts to change over the claim handling fully electronic way, also by all of our member companies.

Italy

I. Non-liability motor vehicle insurance: a European comparison

Not counting compulsory liability insurance, owners' perception of the risk of damage to vehicles is lower in Italy than in all the other countries of Europe. As a result, vehicle theft and fire policies, and especially insurance against damage from collision with an identified vehicle or from other accidents (collision with an obstacle, running off the road, overturning) are less common. The relative rarity of these policies – potentially, they could involve millions of cars – is a major factor in Italy's comparatively low ratio of total non-life premiums to GDP.

RATIO OF MOTOR DAMAGE PREMIUMS TO TOTAL MOTOR INSURANCE PREMIUMS, 1994-2006



Source: CEA European Motor Insurance Market

Data released by the Comité Européen des Assurances (CEA) show that in the last ten years the ratio of non-liability to total auto insurance premiums has held more or less steady at around 40%. In Italy it is lower by nearly two thirds at 14.8%, the lowest in any European country.

The limited extent of insurance against motor risks other than liability aggravates the problem of selection bias. That is, these policies are generally taken out for new and expensive cars in large cities or cities where the risk of damage is especially high.

A regional breakdown shows that the ratio of damage to total motor insurance premiums is higher in the provincial capitals of a region than in the region as a whole. And it is nearly twice as high in northern as in southern Italy (18.3% against 9.7%). Interior Ministry data on auto theft (the key risk covered by motor damage insurance) reveal that almost everywhere the number of cars stolen per thousand in circulation is higher in provincial capitals than in the corresponding region. The nationwide average is 4.2 per mille; it is slightly lower in the North (3.3) and higher in the South (6.4). However, some northern cities display high auto theft rates: Turin at 6.7 per mille and Milan with 9.0. These levels are not far below the southern cities of Naples and Bari, which at 10.7 per mille are the most theft-prone in Italy. These latter two cities, and the South in general, also showed the highest rates of motor damage insurance fraud, according to ISVAP; against the national average of 1.1%, the incidence of fraudulent claims in Naples and Bari was 7.4% and 7.0% respectively in 2005.

According to the data released by the Interior Ministry, the number of car thefts in Italy fell by 9.1% in 2006, but the rate is still high: 20 vehicles are stolen every hour.

However, following the introduction of compulsory direct indemnity by the damaged party's own insurer in liability cases, it is likely that Italy may move up in the European rankings of motor damage insurance.

The payment of indemnity to the non-liable party by his own insurance company is a significant stimulus for damage policies for insurance companies and clients alike. Companies that offer attractive terms for damage insurance in addition to liability policies can guarantee the full coverage of the damage suffered by their policyholders even when the latter are partially at fault; in these cases, liability policies cover the damage only on a pro rated basis.

Increasing the insured population is essential to overcoming the current problem of selection bias (today, damage insurance is sought mainly by persons with relatively high risk) and thus making such policies affordable, thanks to greater mutuality among insured. And it is likely that such a trend would lead the way to even more extensive insurance coverage, embracing not only liability and accident damage insurance but also other damage insurance, such as fire and theft (products that are very widespread, for instance, in the United Kingdom).

II. The average cost of claims and the frequency of accidents

For a complete picture of developments in the loss ratio of the motor liability insurance sector, one must count not only the number of claims made in a year (which in proportion to the number of vehicles insured gives the "claims frequency") but also their average cost. The evolution of the two main cost components – property damage and personal injury – is also interesting.

ACCIDENT FREQUENCY AND AVERAGE COST OF CLAIMS, 2000-2006

(in euros)

YEAR	ACCIDENT FREQUENCY	FREQUENCY: % CHANGE ON PREVIOUS YEAR	AVERAGE CLAIM COST – PHYSICAL DAMAGE	PHYSICAL DAMAGE: % CHANGE ON PREVIOUS YEAR	AVERAGE CLAIM COST – PERSONAL INJURY	PERSONAL INJURY: % CHANGE ON PREVIOUS YEAR	TOTAL AVERAGE CLAIM COST	TOTAL AVERAGE CLAIM COST: % CHANGE ON PREVIOUS YEAR	INCIDENCE OF PERSONAL INJURY: % ALL ACCIDENTS
2000	10.95%	-0.93%	1,278	2.93%	9,920	14.91%	2,809	13.07%	20.5%
2001	9.55%	-12.77%	1,431	12.02%	11,175	12.65%	3,186	13.41%	21.2%
2002	8.78%	-8.09%	1,535	7.26%	12,686	13.53%	3,532	10.87%	20.0%
2003	8.63%	-1.71%	1,634	6.44%	13,542	6.75%	3,805	7.74%	21.0%
2004	8.58%	-0.57%	1,701	4.10%	13,206	-2.48%	3,982	4.65%	20.2%
2005	8.51%	-0.81%	1,644	-3.33%	13,106	-0.76%	4,047	1.62%	21.4%
2006*	8.39%	-1.48%	1,649	0.31%	13,490	2.93%	4,136	2.20%	21.0%

(*) Estimates based on ANIA "swift" motor liability statistics.

Claim frequency decreased from 8.51% in 2005 to 8.39% in 2006; in percentage terms, the reduction came to 1.48%. A contributing factor was the rise in petrol prices. According to the Ministry for Economic Development, the price of unleaded fuel at the pump averaged €1.28 a litre in 2006, up more than 5% from the €1.22 recorded in 2005.

Compare to the european average, the claim frequency for Italy is considerably higher than the average, although the gap has narrowed progressively. Whereas in 2000 accident frequency in Italy was 2.5 percentage points above the average, by 2004 the difference had been reduced to 1.5 points. Accident frequency was cut by 28% in four years in Italy, against a decrease of 19% in Europe(2004 figures). A survey of the insurance associations in the main European countries conducted by ANIA in 2005 found that the accident frequency rate in Italy was lower only than that of Spain (10.1%). France had the lowest rate (under 5%), while Germany and Belgium had rates of 6.8% and 7.0%.

One of the factors in the longer-run reduction in accident frequency in Italy has been the increase in recent years in the number of second cars owned by the insured. The resulting rise in the number of vehicles in circulation has not been reflected in a proportional increase in accidents. Also, there has presumably been an improvement in highway safety over the years, thanks to growing attention by government, insurers and motorists. Another contributing factor has probably been the turnover in the overall fleet of vehicles, with a consequent improvement thanks to the safety features of the new cars.

The average cost of claims (total cost of claims paid and pending divided by their number) rose again in 2006, although the rate of increase has diminished since the turn of the decade. Last year's rise was due mainly to the personal injury component, which increased by 2.9%. Overall, the average cost increase (2.2%) more than offset the reduction in accident frequency.

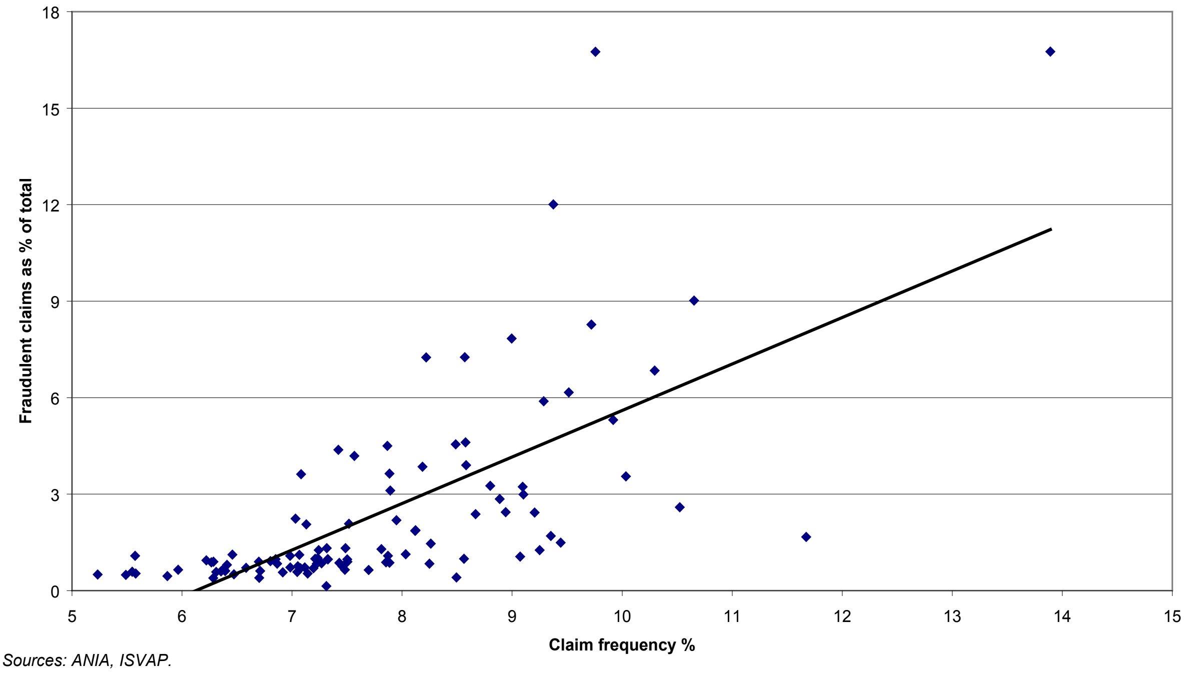
Compared with the other main European countries as regards this indicator, in 2005, the average accident claim cost €3,300 in Europe. In Italy it was €4,000, the highest of any country and 33% higher than the average.

The average claim in France and Germany cost about €500 less, and in Spain it was only half as high. The fact that Italy has a higher cost per claim than the rest of Europe is due to the higher proportion of accidents that involve personal injury (21% in 2006); in the other main markets, the proportion averages just half the Italian figure.

III. Geographical breakdown of claim frequency and fraud in Italy

The frequency of accident claims and their average cost display very substantial geographical variability within Italy. The differences, which are sharpest as regards frequency, depend partly on insurance fraud, which is significant in some parts of the country (Figure 1).

FIGURE 1 - CORRELATION BETWEEN CLAIM FREQUENCY AND CLAIM FRAUD BY PROVINCE



Sources: ANIA, ISVAP.

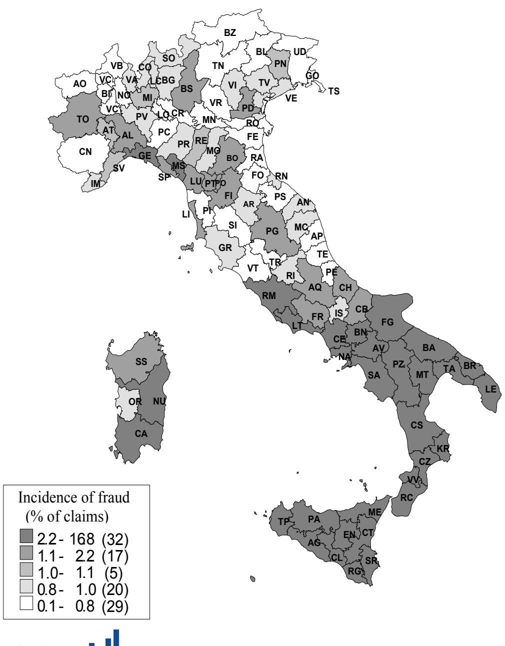
In the motor liability sector, the correlation coefficient between the regional frequency of claims in 2006 and the incidence of frauds on total claims as observed by ISVAP was 0.81, a statistically significant value. At provincial level, the correlation coefficient was 0.68. Average frequency was 8.39% in 2006, down from 8.51%. In northern Italy the rate was 7.55%, significantly below the nationwide average. Similarly, in that part of the country the share of accident claims with ascertained fraud was 0.97% in 2005, against a national average of 2.81%. The northern region with the highest accident frequency was Liguria (8.68%), which also had the highest incidence of fraud (2.32%).

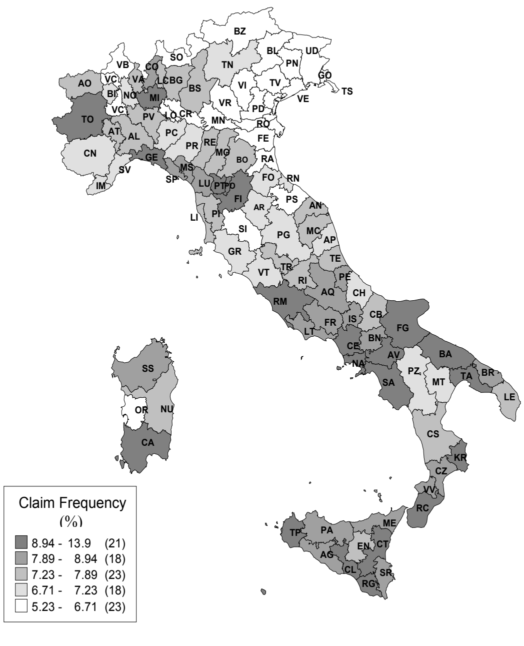
FRAUD AND CLAIM FREQUENCY IN ITALY

in euro

Region	DATA at 31/12/2006					2005*	
	% of total vehicles in circulation	Claim frequency (%)	Average claim cost, current gen.	Average claim cost, previous gens.	Average total claim cost	Claims with fraud (%)	Claims with fraud (value) (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
PIEDMONT	8.36%	8.25%	1,487.60	5,839.31	2,913.84	1.10%	1.03%
VALLE D'AOSTA	0.26%	7.31%	1,387.11	8,107.50	3,095.86	0.15%	0.13%
LOMBARDY	17.05%	8.06%	1,455.92	6,918.92	3,403.79	0.94%	0.82%
TRENTINO ALTO ADIGE	1.63%	6.72%	1,523.89	6,648.47	3,301.95	0.44%	0.32%
VENETO	8.73%	6.29%	1,698.56	8,144.61	4,099.26	0.74%	0.68%
FRIULI VENEZIA GIULIA	2.15%	5.67%	1,623.26	8,029.78	3,780.94	0.48%	0.44%
LIGURIA	2.79%	8.61%	1,442.13	5,186.03	2,836.22	2.32%	2.42%
EMILIA ROMAGNA	8.33%	7.05%	1,706.25	8,700.51	4,286.91	0.76%	0.70%
NORTH	**49.30%**	**7.48%**	**1,545.09**	**7,146.14**	**3,533.84**	**0.97%**	**0.86%**
TUSCANY	7.34%	8.32%	1,949.96	6,890.49	3,731.16	0.97%	0.92%
UMBRIA	1.76%	7.22%	1,794.73	8,206.27	3,944.23	0.58%	0.58%
MARCHE	2.95%	7.10%	1,932.37	9,089.62	4,479.82	0.69%	0.59%
LAZIO	9.05%	9.80%	1,563.95	5,441.05	3,284.91	2.15%	1.82%
CENTER	**21.11%**	**8.69%**	**1,765.94**	**6,426.36**	**3,620.20**	**1.54%**	**1.30%**
ABRUZZO	2.36%	7.72%	1,657.55	7,141.85	3,648.22		
MOLISE	0.56%	7.62%	1,335.69	7,860.35	3,409.14	1.29%	1.05%
CAMPANIA	6.99%	11.64%	1,679.27	5,087.06	3,657.45	13.11%	10.69%
PUGLIA	5.59%	9.49%	1,771.81	6,852.03	3,608.55	7.25%	6.42%
BASILICATA	0.92%	7.05%	1,520.68	7,761.68	3,620.92	2.01%	1.73%
CALABRIA	2.71%	8.19%	1,712.36	7,482.84	3,891.87	4.48%	4.04%
SOUTH	**19.13%**	**9.70%**	**1,695.95**	**5,994.26**	**3,664.29**	**8.31%**	**7.01%**
SICILY	8.22%	8.83%	1,351.23	6,074.75	2,935.22	3.82%	3.49%
SARDINIA	2.25%	8.37%	1,472.83	7,086.17	3,368.62	2.14%	1.45%
ISLANDS	**10.47%**	**8.73%**	**1,765.94**	**6,426.36**	**3,620.20**	**3.41%**	**2.95%**
TOTAL ITALY	**100.00%**	**8.32%**	**1,600.88**	**6,634.92**	**3,547.89**	**2.81%**	**2.44%**

** Source: ISVAP – Indagine sul fenomeno della criminalità nel settore assicurativo – elaborazione dei dati per 2005.*





The percentage of fraudulent claims is significantly higher in the South, where 8.31% of all claims are fraudulent or involve gross overstatement of damage. In the region of Campania this incidence is over 13%; and this is also the region with the highest accident frequency (11.74%). The same pattern, albeit less pronounced, is found in Puglia as well: accident frequency well above average (9.57%) and a high proportion of fraudulent claims (over 7%). The other southern regions, however, have lower-than-average accident frequency and fraud.

Among the regions of the Centre, Lazio has the highest accident frequency (9.88%) and is actually second-highest nationwide behind Campania. However, ISVAP does not find a high incidence of fraud (2% of claims). The island regions of Sicily and Sardinia both have accident frequency higher than the national average.

According to provincial-level data, the city with the highest accident frequency is Naples (14.01%), which also has the highest incidence of fraud (16.8%). The city with the lowest frequency is Rovigo (5.28%), where fraudulent claims make up just 0.5% of the total.

In terms of average cost of claims to insurance companies the geographical disparities are not so great. The national average of adjusted claims is €3,548, and the range is only between €3,533 in the North and €3,664 in the South. This convergence is fairly recent, in that at the turn of the century the values registered in the South were lower. The trend is presumably due to the fact that in the last few years courts have begun to apply standard tables, in particular that used by the Court of Milan, to value personal injury. For minor injuries the standard national table laid down in the Insurance Code is applied.

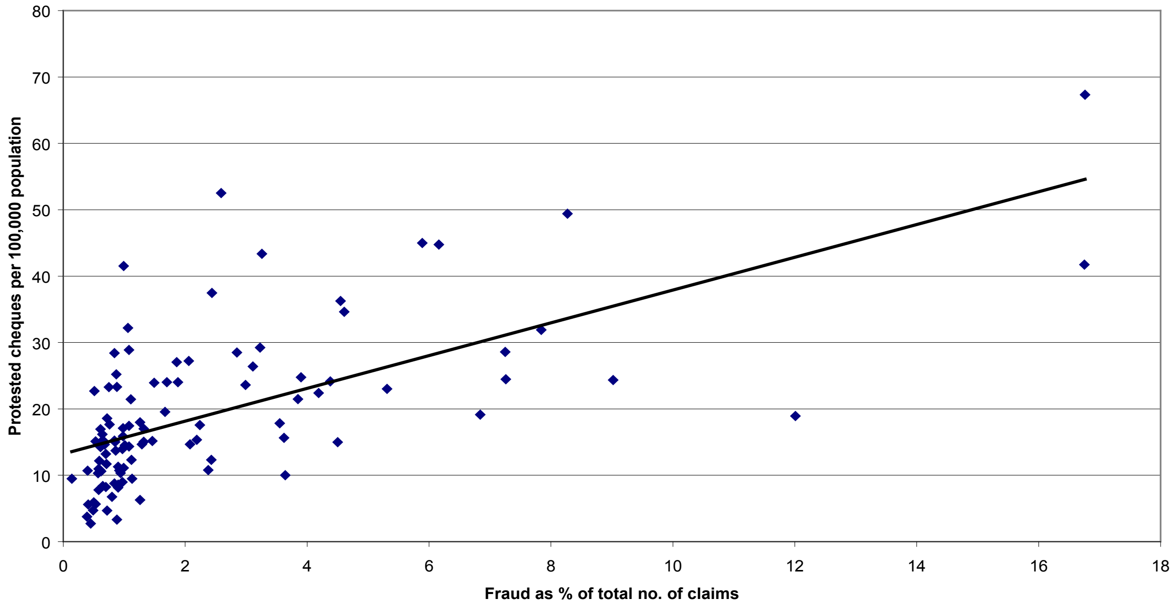
As to the payment of fraudulent claims, however, there are highly significant geographical differences: they account for 7% of total indemnitypayments in the South and just 0.9%, on average, in the North.

By individual region, however, the differences are more pronounced. In Veneto, Emilia Romagna and Marche claims are the costliest (averaging more than €4,000), while in Liguria, Piedmont and Sicily they are smallest (averaging €2,912). The regions where the amounts paid for fraudulent claims are greatest are Campania (10.8% of the total), Puglia (6.4%) and Calabria (5.3%).

By province, the highest cost of accidents is found in Rovigo – the city with the lowest frequency – at €4,900 in damages per claim. Rovigo is followed by Venice, Bologna and Ferrara, with average claims of between €4,600 and €4,700. The southern city with the most costly accidents is Crotone (€4,500 per claim), where 5.6% of the compensation paid involved fraudulent claims. The city with the lowest cost per claim is Biella (€2,480), followed by Genoa, Siracusa and Aosta at around €2,550.

There is a close correlation between motor liability fraud and other phenomena indicating the malfunctioning of the financial system. For example, using province-level data for 2005, the correlation between the incidence of fraudulent claims and the number of protested cheques was 0.63. This suggests that insurance fraud and other problems that limit the use of credit are related (Figure 2).

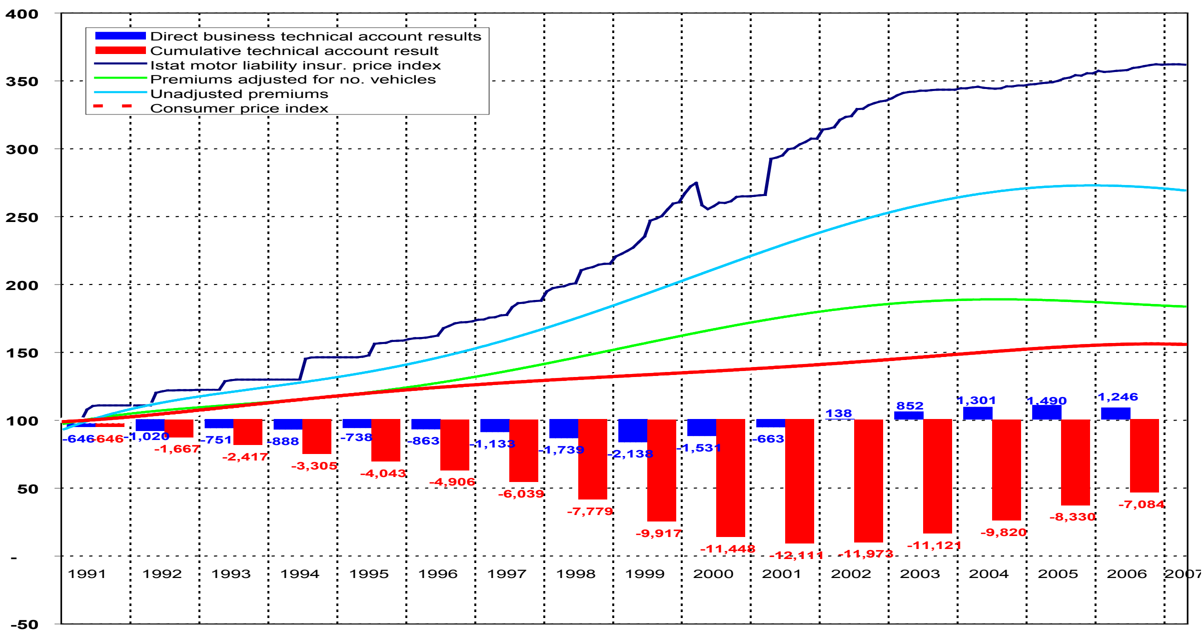
FIGURE 2 - CORRELATION BETWEEN FRAUDULENT CLAIMS AND PROTESTED CHEQUES PER 100,000 POPULATION (PROVINCIAL DATA)



Sources: Banca d'Italia. ISVAP.

IV. Motor liability insurance prices in the long term

Throughout the 1990s, and even after the premium liberalization of 1994, the Italian motor liability insurance market was characterized by steady losses, hence premium price increases. For that entire decade and through 2001, the technical accounts for the motor liability sector were regularly in deficit, with losses that increased from year to year to peak in 1999 at €2.1 billion (or 16% of premium income). From 1991 through 2001, the sector's losses (even without adjusting for inflation) exceeded €12 billion. This is the backdrop against which the Italian insurance industry acted during the crucial years of policy premium liberalization.



Two distinct sources of data can be used to quantify the price increases over the years: the Istat index for "transport equipment insurance" prices, as part of the overall consumer price index, based on monitoring of premiums for selected risk profiles; and the motor liability "deflator", which tracks the change in the average expense to the insured, i.e. the amount of premium income during the year divided by the number of vehicles in circulation.

To begin with, let us note that even before 1994, i.e. when tariffs were still administered and all companies charged essentially uniform policy premiums (the variations going into effect on 1 April each year), the Istat index item "transport equipment insurance" was rising faster than overall inflation. In 1992, for instance, inflation was 5.3% and the Istat item rose by 10.5%; in 1993 the two rises were 4.6% and 7.7% respectively; in 1994, 4.1% and 8.5%. Despite these increases, the companies' technical results did not improve appreciably. Cumulative losses on motor liability insurance between 1991 and 1994 came to over €3 billion. After the 1994 liberalization, price rises, according to Istat, were increasingly large as the companies sought to stem their losses. In 1999 the increase in the Istat indicator was the sharpest ever at 16.7%, while the CPI rose by just 1.7%. But 1999 was the year in which insurance companies registered their worst technical result ever in this sector: losses of over €2 billion. This shows that the premium increases were not due to lack of competition but to the attempt to offset the soaring cost of claims, which coincided in part with the introduction of the "latest cost" standard for valuing claim reserves. In this situation, in March 2000 the government imposed a 12-month premium freeze (whose obvious consequence was simply to postpone increases to the next year).

In 2002, when the technical results first showed signs of a turnaround (a positive if very modest result of €138 million), the rise in premiums slowed immediately, as the Istat index shows. A contributing factor in the reversal was the protocol of understanding signed in 2003 by the Ministry for Productive Activities, many consumer associations and ANIA, which called for a slowdown in price increases and also a commitment to introduce special measures in favour of young drivers with perfect safety records.

However, it must be emphasized that the Istat item considers only a limited number of risk profiles (currently 6) and that these are fixed over time. Since insurance policy prices have become increasingly personalized since the 1994 liberalization, with the application of a large number of rating factors (age and sex of the insured, type of engine and age of the vehicle, accidents caused in recent years), the types of risk profile to monitor have become practically countless. Further, the "fixed" weights make it impossible to take account of the fact that more than 90% of insured cause no accidents in any year, and thus get a "bonus", i.e. a premium reduction; or that a variable number of renewing policyholders get discounts from the official price list.

Making sure that the risk profiles selected are more appropriate, more representative of the population of policyholders, is only one of the problems involved in calculating the Istat motor insurance index. Considering that the mix of policyholders can vary significantly from company to company, reaching a single value for the entire market requires as realistic a weighting system as possible (across companies and, within each, across risk profiles).To obviate these problems and gauge the adequacy of the Istat index, we can use the alternative indicator, the motor liability insurance deflator, based on annual premium income as certified in the insurance companies' accounts. By definition, the rise in premium income measures the overall increase in gross costs to the insured. But to permit uniform comparison from year to year, account must also be taken of the number and characteristics of vehicles on the road.

Change in number of vehicles. According to the Italian Automobile Club (ACI), the number of vehicles in circulation is rising, so that a part of premiums during any year represents new vehicles. Deflating for this, one gets the average increase in insurance cost per vehicle.

Change in vehicle characteristics. The mix of vehicles insured also changes. For instance, the number of cars with larger engines tends to increase; these vehicles, on average, carry higher premiums. Also tending upwards is the number of diesel-powered vehicles, which on average clock more mileage and thus carry higher premiums. Other variable risk characteristics also indirectly affect premium income, such as vehicle age and the maximum amount of coverage chosen. Considering these factors, one can calculate the average increase in premiums holding vehicle characteristics constant.

TABLE 1 – MOTOR LIABILITY INSURANCE PREMIUMS, 1991-2006

Year	1. Premiums (company accounts)			2. No. vehicles in circulation*			3. Premiums "deflated" by col. 2		4. Vehicle characteristics**		5. Premiums "deflated" by cols. 2 and 4		6. Memo. item: Istat motor liability index		7. Memo. item: Istat consumer price index	
	(Mn. euro)	Index	Annual % change	Thousands	Index	Annual % change	Numero indice	Annual % change	Index	Annual % change	Index	Annual % change	Index	Annual % change	Index	Annual % change
1991	6,729	100.0	-	35,455	100.0	-	100.0	-	100.0	-	100.0	-	100.0	-	100.0	-
1992	7,574	112.6	12.6	36,640	103.3	3.3	109.0	9.0	100.0	0.0	109.0	9.0	110.5	10.5	105.3	5.3
1993	8,167	121.4	7.8	38,580	108.8	5.3	111.6	2.4	100.0	0.0	111.6	2.4	118.9	7.7	110.1	4.6
1994	8,663	128.7	6.1	39,755	112.1	3.0	114.8	2.9	100.0	0.0	114.8	2.9	129.0	8.5	114.6	4.1
1995	9,316	138.4	7.5	40,573	114.4	2.1	121.0	5.4	101.1	1.1	119.6	4.2	142.2	10.2	120.6	5.3
1996	9,770	145.2	4.9	40,453	114.1	-0.3	127.3	5.2	102.7	1.6	123.9	3.6	155.1	9.1	125.4	4.0
1997	10,655	158.3	9.1	40,870	115.3	1.0	137.3	7.9	103.9	1.1	132.2	6.7	169.3	9.2	128.0	2.0
1998	11,745	174.5	10.2	42,650	120.3	4.4	145.1	5.7	105.0	1.1	138.2	4.5	192.4	13.6	130.5	2.0
1999	13,226	196.5	12.6	43,563	122.9	2.1	159.9	10.2	104.3	-0.7	153.3	10.9	224.6	16.7	132.7	1.7
2000	14,196	211.0	7.3	44,680	126.0	2.6	167.5	4.8	104.1	-0.1	160.8	4.9	246.2	9.6	136.0	2.5
2001	15,315	227.6	7.9	46,480	131.1	4.0	173.6	3.6	105.3	1.1	164.9	2.5	272.6	10.7	139.8	2.7
2002	16,628	247.1	8.6	47,763	134.7	2.8	183.4	5.6	105.6	0.3	173.6	5.3	304.3	11.6	143.3	2.5
2003	17,622	261.9	6.0	49,101	138.5	2.8	189.1	3.1	105.4	-0.2	179.4	3.3	319.6	5.0	147.1	2.7
2004	18,062	268.4	2.5	50,100	141.3	2.0	190.0	0.5	106.2	0.8	178.9	-0.3	322.6	0.9	150.4	2.2
2005	18,171	270.0	0.6	51,152	144.3	2.1	187.1	-1.5	106.7	0.5	175.3	-2.0	328.1	1.7	153.3	1.9
2006*	18,387	273.2	1.2	52,175	147.2	2.0	185.6	-0.8	107.1	0.3	173.4	-1.1	335.6	2.3	156.5	2.1

(*) Source: ACI (for 2006, estimate).
(**) This index is set at 100 for all years to 1994, as in the administered-price regime only extremely limited variations according to vehicle characteristics were made.

Table 1 shows the data needed to calculate the premium deflator since 1991, the base year chosen. In all the years through 2001 except for 1992-93, the Istat index for motor liability insurance (column 6) rises far more than the total premium income (column 1). This pattern is anomalous: one would suppose that the unit price rise should be less than the total increase in premiums, as a rising number of vehicles were insured. And the number of vehicles (column 2) does in fact rise every year. This anomaly ends in 2003, the year Istat revised its price observation with three significant changes:

- a careful redefinition of policyholder profiles to reduce the possibility of error by Istat surveyors;
- inclusion of previously neglected profiles (scooters, young drivers);
- revision of the weights for the different profiles.

In the four years from 2003 through 2006 the average annual increase in motor liability prices, according to Istat, was 2.5%, compared with 0.3% for the per vehicle price deflator (column 3) and no increase at all for the price deflator taking account of vehicle characteristics as well (column 5).

The disparities between the indicators are explained by differences in methodology. In particular, in addition to the effect of the "bonus" earned by 90% of policyholders every year, insurers made increasing use of discounts off list prices, a factor that a fixed-weight indicator like Istat's, using official list prices, cannot take into account.

Overall, going by the motor liability price deflator (column 3), in the 13 years from 1991 to 2004 the cost of insurance per vehicle rose by 90%, while the consumer price index rose 50% (column 7). Afterwards, the cost of insurance per vehicle fell by 1.5% in 2005 and 0.8% in 2006, against rises of 1.9% and 2.1% in the CPI. In 2007 the rise in motor liability insurance prices has remained modest. In May the Istat index for the item was up 1.5% over May 2006, the same as the rise in consumer prices generally.

V. Motor liability insurance: direct indemnity

Following protracted debate over the introduction, by law, of direct indemnity in the motor liability sector and the design of the implementing regulations, the procedure became effective on 1 February 2007. The system is complex, a fundamental role being played not only by the statutory and regulatory provisions but also by the way relations between insurers are structured. These are governed by a private-law convention (CARD) supported by a specific protocol between ANIA and CONSAP S.p.A. for the management of a "clearing house" for settling obligations between participating companies.

For policyholders, the system is simple, patterned after the old, voluntary amicable accident report. This is now replaced by a legally compulsory system. When there is a collision between two vehicles, the party not liable, or only partly liable, applies for indemnity directly to his own insurance company, which is required to provide all necessary assistance in examining the case and to fully inform the insured of his rights. Further, the new system provides that the insured/damaged party take any legal action for damages against his own insurer, not the other party's. There is also a voluntary conciliation procedure developed by ANIA and a group of consumer organizations for settling disputes between policyholders and companies.

Direct indemnity applies on condition that both vehicles are identified and regularly insured; it is in effect for damage to vehicles and goods transported and for minor personal injury to the driver not at fault (or only partially at fault). The procedure also applies when passengers have suffered injury, but with a special procedure under the law, whereby the injured party must apply to the insurer of the vehicle in which he was riding.

Direct indemnity does not apply in cases of:

- accidents occurring outside Italy;
- accidents involving more than two vehicles;
- accidents involving a motor scooter not carrying the new type of licence plate;
- accidents involving agricultural machinery (until 1 February 2008);
- serious personal injury to the driver.

Unlike the old amicable accident report, direct indemnity applies even when the report form (the so-called "blue" form) is not signed jointly by both drivers or policyholders. However, joint signature does facilitate determination of liability and speed up settlement.

The other side of this simplicity for the insured is a highly complicated apparatus necessitating drastic far-reaching reorganization both for the insurance association (ANIA manages the convention between insurance companies and all the related IT infrastructures) and for the individual insurance companies. The change engendered a series of regulatory, organizational and IT activities that were accomplished in just five months and monitored step-by-step by all the relevant institutions: the Ministry for Economic Development, ISVAP, and the Antitrust Authority.

V.1 The implementing regulations

Decree 254 of 18 July 2006 (published in Gazzetta Ufficiale No. 199, 28 August 2006) enacted the implementing regulations for direct indemnity pursuant to Article 150 of the Insurance Code. The decree completes the body of rules governing the new damage indemnity procedure. It is marked by the very great number of obligations imposed on insurance companies in terms of the organizational apparatus for the operation of the system (the CARD Convention – Insurance Convention on Direct indemnity) and the settlement of monetary obligations between participants.

The decree institutes a system of fixed compensation based on pre-determined average costs set at the start of each year and applying to all accounting settlements concerning accidents during the year. Under the old voluntary accident report procedure, each mandatary company was fully reimbursed for the amount of the settlement with the insured, adjusted at year's end by methods based on bilateral comparison between average costs for the two companies. Under the new system the direct insurer, which has settled with its own insured on account of the insurer of the vehicle at fault, receives as compensation for each claim settled only a fixed amount corresponding to the previous year's average cost. To take account of the geographical disparities in average compensation costs, the ministerial committee set three fixed amounts for three macro-areas within Italy.

Under this compensation method, a company that has managed to keep the cost of claim settlement below the fixed amount profits by the difference; conversely, it makes a loss if the payment is higher than that amount owing to the company's own inefficiency or simply to bad luck in the case that the actual damages were greater than the fixed amount.

Unlike the fixed-sum compensation method in place in other European countries where the direct indemnity system is used on a voluntary basis, in Italy the insurer of the vehicle at fault cannot learn the amount actually paid on its behalf by the injured party's insurer. This concealment of the actual damage figures has had a substantial organizational impact, as insurance companies have had to radically rethink their risk analysis for setting premiums and redesign their accounting format to comply with the new rules for reporting accidents and calculating claim provisions laid down by ISVAP on the basis of the new method of indemnity and compensation.

Indirectly, the new rule also altered important motor liability contract clauses (deductibles, right of recourse, right to reimburse the company personally to avoid bonus/malus penalty) whose application in a system of direct indemnity required the exchange of information on actual damages paid between the mandatary company and the "debtor" company. As these are clauses to the consumer's advantage, a procedure was instituted under which the insured may exercise his option to pay the damages personally to the manager of the clearing house rather than to his own insurance company. With this new procedure the clearing house, once it has received the reimbursement from the insured, credits the amount to the mandatary insurer and cancels the fixed-sum liability of the debtor company, which can thus annul the bonus/malus penalty for its own policyholder.

Of course there is no escaping the complexity of such a procedure, especially in cases where all these operations must be performed near the contract expiry date. In order to permit right of recourse in policies with a deductible, the clearing house was assigned to report to the liable insurer only amounts below the contractual deductible. This information is thus not systematic but circumscribed to a small number of cases that quality as exceptions allowed by the Antitrust Authority.

V.2 Private-law conventions under the implementing decree

Decree 254/2006 did not simply establish the criteria and procedures for instituting direct indemnity of motor vehicle accident claims but also laid down guidelines for organizational relations and cooperation among insurance companies – first of all, the regulation of contractual obligations between the insurers of the vehicles stemming from the management of the claims. Specifically, Article 13 provides that insurance companies adhere to a private Convention governing the organizational and accounting relationships necessary to operate the system. This article also provides that the settlement of economic obligations between companies must be effected by a “clearing house” that is wholly independent of the insurance companies and their trade associations. The body specified to operate it is CONSAP, S.p.A., which has the desired characteristics.

The CARD Convention – Insurance Convention on Direct indemnity

The Insurance Convention on Direct indemnity (CARD) defines the procedures for participating in the direct indemnity system in terms of financial guarantees and IT standards for the performance of the activities required for transmitting claims to the clearing house.

Modular structure

Like the voluntary conventions that preceded it, CARD has a modular structure, comprising both the direct indemnity procedure proper governed by Articles 149 and 150 of the Insurance Code and its implementing regulation (Presidential Decree 254/2006) and the special procedure for indemnification of passengers pursuant to Article 141 of the Code.

Scope and purpose (Article 1)

The convention thus consists of a general set of rules (procedures for adhesion, bank guarantees, tasks and function of the clearing house manager, penalties, arbitration procedures) and two specific sets of rules for conventions on direct indemnity: that on direct indemnity itself (Convenzione Indennizzo Diretto – CID) and that on third party passengers (Convenzione Terzi Trasportati – CTT).

Participation (Article 2)

Participation in the CARD Convention is compulsory for all motor liability insurers with registered office in Italy and entails subscription of both special conventions. Insurance companies with registered office in other member states doing business in Italy under the freedom of establishment or the freedom to provide services and that intend to participate in the direct indemnity system are required to subscribe the Convention.

Clearing house manager (Article 3)

Article 13.3 of the implementing regulation calls for the outsourcing of the operation of the clearing house, defined as the whole set of activities relating to accounting settlement and transfer of monetary amounts. The manager of the clearing house is also responsible for the data processing necessary to calculate the average claim costs that the Ministry for Economic Development technical committee envisaged in Article 13 of the implementing regulation must set each year to determine the fixed reimbursement amounts. For this purpose, insurance companies must transmit exclusively to the clearing house, in a specific data flow, also the amounts settled in their role as paying agent.

Monitoring compliance with the Convention (Article 4)

All activities not assigned to the clearing house and not subject to antitrust rules (verification of insurance cover, exchange of information on liability for the accident, monitoring compliance with the Convention, arbitration) are assigned permanently to ANIA.

Conditions for participation and termination (Articles 6-10)

These articles lay down the requirements for being party to the Convention as regards:

- the constitution of a bank surety in favour of the clearing house;
- adoption of technical and IT supports necessary for operation of the system;
- creation of a company unit to handle relations with the clearing house, with ANIA and with the other insurance companies with the specific functions envisaged by the Convention.

They also specify conditions for termination of participation, in connection with situations of corporate abnormality.

Enforcement and penalties (Articles 11-12)

Sample checks of compliance with the Convention and checks upon request of individual companies are envisaged. The rules govern some types of dispute not subject to arbitration and set the penalties for non-compliant companies. The checks are performed by a special unit, CONCARD.

Arbitration (Article 14)

Rules for arbitration of disputes over the attribution of liability and of disputes in some specified

cases relating to third-party passengers.

Verification of insurance cover for the CID Convention (Article 16)

The SIC system acts as "official certifier" of the insurance coverage of the two vehicles involved in an accident.

Verification of liability in case of accident report not signed jointly for CID Convention (Article 18)

The new rules focus in particular on the determination of liability for accidents, which must be verified whenever the accident report lacks the joint signature of both drivers. The rules of the Convention concerning the apportionment of liability apply exclusively for the purpose of settlement of financial obligations between companies. The Convention allows for a single online exchange of information between the two insurers to report their reciprocal percentages of liability and indicate which case in the barème applies to the accident in question.

Failing agreement on the division of liability, 50% co-liability for the two insurers is presumed. This assumption can be overturned by an arbitration procedure.

Compensation of the mandatary company (Articles 23 and 38)

For claims handled via the direct indemnity procedure (CID Convention), the procedure provides for a single fixed payment to the mandatary insurer, in reimbursement of all payments for damages to the vehicle, personal injury to the driver, damage to objects transported and recourse on the part of mutual organizations, private insurers (including recourse on collision insurance) and employers for every claim handled.

As for personal injury to passengers, there is a fixed payment, different from that for the CID Convention, applying to each injured party.

Handling fees for mandatary (Articles 27 and 41)

So as not to penalize companies that end up handling a larger number of cases than would have been the case given their effective claim frequency, both the CID and the CTT conventions provide for a handling fee equal to 15% of the fixed sum, applying to the number of cases handled in excess of those of each other mandatary.

Operational support

The Convention will be backed by the operational supports provided for in Article 8.

V.3 ANIA/CONSAP convention on clearing house functions

All reimbursements made through the direct indemnity procedure are transmitted monthly to the clearing house, which registers the sum owed according to the type of convention (CID or CTT) and, for CID claims, the province of residence of the non-liable owner. The actual damages paid are known only to the clearing house operator and serve to calculate the average costs that the ministerial Technical Committee uses in determining the fixed compensation schedule for the following year.

Relations with the operating entity are defined in a convention that forms an integral part of the CARD Convention itself, as envisaged in Article 8.

VI. The estimation of the fixed compensation amounts

The direct indemnity system provides for settlement of amounts due between insurance companies via offsetting of the claims paid. This offsetting is based on average costs (differentiated by macro-areas for physical damage, and with deductibles for injury to passengers) calculated yearly by a special Technical Committee. The Committee is composed of one member from the Ministry for Economic Development (as chairman), one from ISVAP, one from ANIA, two from consumer associations, and an actuarial expert who has never worked for any insurance company.

For the first year, lacking data on the new claims system, the Committee fixed the compensation amounts based on the market data available, supplied by ISVAP and ANIA.

VI.1 Fixed compensation amounts for CID-CARD

The amount fixed for direct indemnity must be a single amount used to indemnify: damage to the vehicle (accidents involving just two vehicles); minor personal injury to drivers (permanent disability of no more than 9%); and damage to goods transported by the driver and/or owner. For the component of physical damage alone (vehicle and goods transported), differentiation by three geographical areas is envisaged. The amounts were estimated as follows.

1. The average cost of damage to the insured vehicle and to goods transported was estimated based on the value given by ISVAP1 for the average cost of claims paid (for all generations) in 2005, namely €1,554 (it was not possible to exclude the cost of accidents involving more than two vehicles). This amount was reduced by adjustment costs, which are charged to the mandatary company; these coming to about 12%, the average net claim cost is €1,368. This was revalued to December 2006 using Istat's national consumer price index for production and clerical worker households (+2.47%) and then to June 2007 using the target inflation rate for the year (+2.00%). The final estimate of the average cost of damage to the insured vehicle and goods transported came to €1,416.

2. The three geographical areas were determined by cluster analysis of ANIA's quarterly statistics on motor liability insurance. The provinces of Italy were divided into three groups defined in such a way that the ratio between the average cost of current-generation claims paid2 in each set of provinces and that of

1 Letter of 27 October 2006: "Statistiche relative alla gestione dell'assicurazione della responsabilità civile autoveicoli terrestri e veicoli marittimi, lacustri e fluviali" (from the direct Italian insurance portfolio, 2000-2005).

2 In this case, there being no geographical breakdown of the average cost of all generations of accidents involving only physical damage, the current generation of claims was used. As these mainly consist of accidents with only physical damage, this is the most reasonable value to use for determining the geographical breakdown of this component. Otherwise – i.e. using the average cost of claims paid for all generations of accidents – the geographical distribution would be significantly affected by differences in other

the cost in the province of that set with the lowest cost is approximately equal in all three sets of provinces. The difference between the average claim cost in each set and the average cost nationwide (Table 1) was used to generate three coefficients for the geographical differentiation of the physical damage component of compensation as estimated above (€1,416). The values for the three sets of provinces are given in the table.

TABLE 1 – GEOGRAPHICAL DIFFERENTIATION
in euro

	Set 1	Set 2	Set 3
Average cost of physical damage claims, 30/6/2007	1,416	1,416	1,416
Coefficient for geographical areas	*1.18*	*0.97*	*0.83*
Average cost of physical damage claims by geographical area, 30/6/2007	1,671	1,373	1,175

3. Minor personal injury to driver (permanent disability of 9% or less) was estimated on the basis of an ANIA study of minor permanent injury on a sample of claims for such injuries, adjusted using additional information from the ISVAP Accident Database. The average cost of claims with this type of injury was €3,993. As this was for claims paid between 1 February and 31 March 2005, it was revalued to June 2007 using Istat's consumer price index for clerical and production worker households as established by law. The average cost of claims for minor personal injury to the driver thus came to €4,071.

The single compensation amount for each geographical area was obtained by weighting the average claim cost as calculated above considering all the types of accident.

TABLE 2 – ESTIMATED SINGLE CLAIM COST FOR CID-CARD

	Type of accident	*AMOUNT in euro* *Area 1*	*Area 2*	*Area 3*	Numerical weight (%)
Mixed					
Row 1.	Physical damage	1,671	1,373	1,175	
Row 2.	Minor personal injury	4,071	4,071	4,071	
Row 3 = Row 1 + Row 2	***Mixed***	***5,741***	***5,444***	***5,246***	***15.33%***
Physical damage only					
Row 4	**Only physical damage from serious accidents**	***1,671***	***1,373***	***1,175***	***84.67%***
Row 5. Single compensation amount (weighted average of Row 3 and Row 4)		**2,295**	**1,997**	**1,799**	

To explain these procedures in detail:

Row 1: The average cost of physical damage claims is estimated using the three geographically differentiated amounts (Table 1).

Row 2: The average cost of claims for minor personal injury (permanent disability of 9% or less) to driver is the previously estimated value of €4,071.

Row 3: The average claim cost for "mixed" accidents involving physical damage and also minor personal injury to the driver is the sum of the averages estimated for the single components. Thus for mixed accidents

average costs (severe personal injury), the pattern of which is different.

the average claim cost (revalued to June 2007) was €5,741 for Area 1, €5,444 for Area 2, and €5,246 for Area 3. Weighting – calculating the incidence of these accidents on the total – was as follows. The ANIA database shows that for every 100 accidents there are 135 damaged parties; 83.4 of these are drivers, and only 73 suffer some minor personal injury. Finally, considering that accidents involving personal injury account for 21.0% of the total, the result is that the weight of accidents with minor personal injury to the driver is 15.33% (73.0% x 21.0%)

Row 4: Thus the majority of accidents (100% - 15.33% = 84.67%) do not involve driver injury but only physical damage to vehicles and goods transported. These accidents are valued (at June 2007) as in Row 1.

Row 5: To estimate the fixed compensation value, for each Area the two claim costs estimated above (mixed and material-damage-only) are weighted. The resulting values are €2,295 for Area 1, €1,997 for Area 2 and €1,799 for Area 3.

VI.2 Fixed compensation amounts in respect of passengers (CTT-CARD)

The convention on indemnity for passengers also calls for a fixed compensation amount owed for the damage to every injured passenger and his property, net of litigation, adjustment and expert assessment costs. There is a threshold of €5,000, up to which the mandatary insurer is reimbursed (less the deductible of €500). For amounts above this threshold the mandatary is reimbursed by the threshold amount plus the excess. Accordingly, the average amount of personal injury damages to drivers up to the threshold has been estimated, as follows.

Using the ANIA study on minor personal injury, the threshold value can be considered as equal to the average claims cost of injuries to passengers involving permanent disability of 3%. To estimate the average cost of compensation for personal injury to passengers, the value given in that study, adjusted according to additional information from the ISVAP accident database, has been used. The average claim cost for accidents involving this type of personal injury is €2,555. As this figure is for claims settlements at 1 March 2005, it was revalued to June 2007, using as above Istat's consumer price index for clerical and production worker households as required by law. The average cost of indemnity to passengers for personal injury entailing permanent disability of 3% is estimated at €2,644. The fixed compensation amount was then determined as the weighted average of this cost and the €5,000 threshold level, with weights equal to the percentage of injuries with 3% permanent disability (74.5% of the total) and the rest (25.5%). The fixed amount thus comes to €3,250.

In addition to the fixed deductible of €500 (10% of the threshold), there is also a proportional deductible of 10% of the amount of indemnity paid, with a ceiling of €20,000.

VII. Implementing regulations to the insurance code provisions on motor liability insurance

The Insurance Code assigns broad regulatory powers to ISVAP, the insurance oversight authority. In the field of motor liability insurance, the Code coordinates the series of laws enacted over the years, with their own regulations. These will continue to apply until they are replaced by new legislation. In integrating and updating these regulations, in 2006 ISVAP issued two implementing measures.

VII.1 ISVAP Regulation 3 of 23 May 2006

Requirement to feed data to the SITA database for the operation of the Italian Information Centre (4th EU Motor Directive). The regulation lays down general criteria for the operation of the Italian Information Centre, instituted at ISVAP, whose purpose is to provide informational support to damaged parties in "cross-border" accidents, as provided for in the 4th Motor Directive (Directive 2000/26/EC). The Directive institutes a scheme to protect the victims of road accidents occurring in a member state other than that of residence ("visiting victims"). This calls for the creation in every EU member of an information centre to give accident victims who have returned home and submit the request in their own language the relevant information on the insurance cover of the vehicle liable for the accident.

ISVAP, exercising its option under Article 154 of the Insurance Code, determined that the Italian Information Centre shall acquire the data on motor liability insurance policies on all vehicles registered in Italy by signing an agreement with ANIA to have access to the services of the Association's SITA database (Information Service on insured vehicles by licence plate number). This solution enables ISVAP to draw on a large, long-established voluntary database, avoiding a costly duplicate. Starting 22 July 2006 (as specified by the Regulation), Italy went over from the previous voluntary scheme for data acquisition under SITA to a compulsory data transmission system, necessary for the performance of a public service that is now obligatory under EU law. The ANIA-ISVAP agreement, to be signed pursuant to Article 5 of the Regulation, shall lay down specific technical procedures and timetables for the transmission of data to the SITA database.

VII.2 ISVAP Regulation 4 of 9 August 2006

Customer information requirements at expiry of contract and measures to attestation of risk status.

The measure, in effect from 1 January 2007, specifies information requirements for insurers when the annual motor liability insurance policy expires and also governs the content and mode of delivery of the attestation of customers' risk status. The Regulation also extends to all types of vehicle the rules on the indication of the "universal conversion" merit class, which is to be specified in the attestations of risk in order to permit comparison between the different standards used by insurance companies in constructing their own bonus/malus grade. The indication of the universal conversion class in addition to the contractual merit grade was originally provided for in ISVAP Circular 565/2005 only for cars, motorcycles and scooters.

VII.2.1 Notice to be sent to policyholder on occasion of the annual contract expiry

In this sphere Regulation 4/2006 is based on Article 191.1b of the Insurance Code, which gives ISVAP broad powers to impose information requirements on companies before the conclusion and during the life of contracts, including insurance products marketed or placed using distance techniques (telephone or Internet). All insurers are required to transmit to the policyholder, at least 30 days prior to expiry of the contract and even where there is no tacit renewal clause, a notice patterned on the form annexed to the Regulation. The notice must state the date of expiry, the procedures for the customer to give notice of intention to terminate, the current premium and that for the following year, the number and cost of accident claims relevant to application of a higher premium ("malus", "pejus") or – as regards premium and accidents – the availability of the relevant information at the agency to which the policy is assigned or, alternatively, the company's call centre.

With the introduction of the direct indemnity system, effective 1 March 2007 ISVAP revised the compulsory information that insurers must provide – directly or through their brokers – concerning the number and cost of accidents impinging on the policyholder's merit grade and the premium for the following year in cases in which the contract gives the liable party the option of paying the claim himself to avoid the premium increase. ISVAP Provision 2494 of 21 December 2006 revised the facsimile notice annexed to Regulation

4, separating the information applying to claims settled via direct indemnity from that required for claims settled by other procedures. For claims paid by the damaged party's insurer via direct indemnity, in fact, the liable party's insurer must inform its policyholder that to learn the amount of the claim he must apply to CONSAP, the only organization authorized to possess information on actual costs of accidents handled via direct indemnity.

VII.2.2 Attestation of risk status

The measures implementing Article 134 of the Insurance Code specify the content, delivery, and period of validity of the attestation of risk status and the initiation and duration of the risk observation period. ISVAP Regulation 4/2006 changed the mandatory delivery date of the attestation, which must now be transmitted to the policyholder together with the notice due 30 days prior to contract expiry. It also modified the initiation and duration of the accident observation period, establishing a uniform measure for all insurers, namely that the period begins on the same date as the initial insurance contract and ends two months prior to its expiry. For years after the first, the period shall cover the twelve months beginning with the end of the previous observation period.

As for the period of validity of the attestation for purposes of taking out a policy with a different company, Regulation 4/2006 lays down an "ordinary" period of 12 months, extendable to 18 where the policyholder declares to the new insurer that the vehicle has not circulated in the period subsequent to the expiry of the previous policy. It appears to be necessary, however, for ISVAP to harmonize this rule on validity, plus other measures, with measures enacted on liability insurance in 2007 by the so-called Bersani-2 decree, which extends the period of validity of risk attestation to five years.

VIII. Bonus/malus systems following the recent rules changes

Perhaps the main form of motor liability risk personalization, bonus/malus systems are based on the insured's accident history or safety record: his greater or lesser tendency to cause accidents. Since their introduction in the 1970s these schemes have proven their usefulness in preventing accidents; like deductible indemnity policies, they give the insured incentives to drive carefully and avoid damage to third parties.

Given the structure of compulsory motor liability insurance – which must cover not only the owner but any driver of the vehicle (insurance in the name and on account of the liable person) – bonus/malus systems refer to the vehicle, not to authorized drivers or owners, much less the policyholder. However, to identify the person to whom the position established by a vehicle over time on the bonus/malus scale applies, the law expressly names the owner (Article 134 of the Insurance Code).

From the standpoint of price personalization, bonus/malus systems distribute the overall premium cost among the various classes of insured, based on models that apply coefficients to raise or lower premiums as a function of accident history. Until 1994, in the framework of "administered" prices and contract terms (every year the Interministerial Committee on Prices set prices and contract clauses), there was a single bonus/malus scale both in terms of number of merit classes and rules for entry into the mutual insurance system. The rules for changing merit ratings and the premium coefficients were laid down by the Committee and applied in uniform fashion by all companies.

With liberalization, the bonus/malus rating systems began to be differentiated from company to company not only with regard to the three factors just mentioned but also with the introduction of mixed formulas (bonus/malus and deductible) as well as the traditional Anglo-American no-claim discount. To permit comparison among the various systems adopted by different companies and so make it easier for policyholders to switch insurers, ISVAP issued a series of measures introducing and governing the "universal conversion" class to make the bonus/malus scales of all companies comparable. This universal class must be given in the risk attestations for policyholders and must be applied by each insurer in taking on risk, according to a specific table of correspondence with its own internal rules.

This framework, confirmed by the Insurance Code and based on freedom to set prices and establish contract terms, was then acted upon by the "Bersani-2" decree (Decree Law 7/2007, converted into Law 40/2007); Article 5 of the law introduces a set of mandatory measures concerning bonus/malus clauses, laying down:

- the period of validity of the risk attestation, extended from one year to five;
- the requirement to assign to the policy on a new vehicle acquired by the owner of one already insured or by a stable member of the latter's household the same merit class as that of the vehicle already insured;
- the rules for modifying the bonus/malus rating after an accident;
- the requirement for prompt notification of the insured of a change in class as a result of an accident.

There is no denying that these provisions respond to complaints from consumer organizations over certain laws or contract clauses perceived as socially unfair. It is equally certain that the rules go beyond the legislative prerogatives that the EU reserves to Member States, which should abide by the hierarchy of Community law as regards the inviolable principle of free determination of prices and contract instruments in the insurance industry. The new rules have features that make their economic benefits for most consumers questionable, and they have undesired effects, as often happens when market rules are made more rigid. Apart from the provision on the duration of the risk attestation – which answers to specific, reasonable needs concerning the use of a vehicle – and the prompt notification of changes in merit class – already envisaged, de facto, in the insurance rules in force – the new bonus/malus provisions require adjusting the price structure to recover the entire reduction in the resource flow from the types of contract regulated. In particular, requiring insurers to assign new cars acquired by a policyholder or his family members the same merit class as the first car rather than the company's entry-level class is tantamount to a mandatory price discount. This reduces expected premium income and requires the charging of higher prices to other policyholders to make up for the shortfall. In the same way, changing the rules on liability for purposes of calculating higher premiums for drivers causing accidents to penalize only the person "principally" responsible for the accident and excluding partial liability and 50% liability diminishes the flow of premium income by the amounts that would derive from those increases. This is in addition to the reduction in premium income described above.

The regulation on calculating liability for purposes of applying the "malus" penalty is also objectively incompatible with the general principles of the legal order, and in evident conflict with an ethics of accountability for the insured. Quite apart from the rule's difficulty of interpretation, which creates a serious problems in application, let us note that under Italian civil law in the case of joint liability each liable party is responsible for his proportional part of the cost of indemnity. The motor liability insurer covers this substantive liability and in turn must indemnify for damage in proportion to the degree of liability of the person it insures. What is worse is outcome where the two drivers are equally responsible (50% each). In these cases neither of the two would be assigned the malus penalty. In addition to this absurdity, then, the rule could incite fraudulent behaviour.

In conclusion, the provisions concerning the bonus/malus system distort its nature, reducing the implicit deterrence of the malus penalty. This implies a flattening of the distribution towards the better classes, but the insured will have to pay higher premiums to offset the income loss due to failure to apply the penalties.

Malta

I. Introduction – The Way Forward

I.1 Introduction

One can safely consider 2006 as a good year for the Maltese insurance market as a whole.

There was a sustained favourable growth in the Life Insurance sector, which saw the market demand increasing from 10% in 2005 to 20% in 2006.

At the same time, though demand in the non-life sector was generally static, Insurers have retained a satisfactory level of underwriting results, with a loss ratio of 54% for Motor and 34% for other general classes. Only health insurance remained in the doldrums with an underwriting loss ratio of 79%.

This Report will provide an overview of the several initiatives in which Maltese Insurance Association (MIA) was involved during the year. As you can appreciate, these initiatives are in various stages of completion and work will continue in their development throughout 2007.

I.2 The Challenges facing motor insurance

MIA has actively influenced Government's thinking on the most practical way to transpose the Fifth Motor Directive. It has actually collaborated in the drafting of the relative legislation. However, discussions are still in progress on Government's formal decision as regards cover for insurance-exempt vehicles.

The European Commission has meanwhile announced its intentions to recast the Motor Directives between during 2007, with proposals that will introduce:

- Strict liability to pedestrians, cyclists, passengers in a vehicle and non-motorized road users who sustain personal injury due to a road accident;
- First party insurance cover for personal injuries sustained by the driver of a motor vehicle involved in an accident;
- A minimum third party personal injury capping of €1 million per victim

Acting in concert with CEA, we will be renewing our lobbying to persuade Government that it should not reopen discussion on issues which have already been rejected during the debate on the previous waves of Directives.

Solvency II will encourage and reward Insurers which use proper risk measurement techniques.

In our view, this has a very important bearing in the pricing of Motor Insurance. This is relevant because our current premium rating of Third Party Fire and Theft and Comprehensive policies aggregates the premium due for the Liability risk with the component for Own Damage; one cannot therefore rule out that the premium from Third Party Fire and Theft and Comprehensive policies is actually subsidising the Third Party only premium.

Based on these considerations, the intended development of Vehicle Group Ratings will initially concentrate on the different risk indices that are relevant to Third Party Liability, mainly a vehicle's power-to-weight ratio and its degree of safety according to the Euro NCAP rating.

Research into a vehicle's grouping would provide a benchmark. Insurers would in addition have to devise their own separate and individual underwriting systems in order to capture, weigh and apply a rating coefficient to each risk factor.

During the year under review, MIA has continued to develop strong relations with the Malta Transport Authority (ADT) in order to ensure that Government remains committed to the prevention uninsured driving.

The number of licensed vehicles is roughly equivalent to the number of motor policies, although there are a few defaulters, in respect of whom ADT has agreed to apply very stringent measures.

A new Motor Insurance Certificate is being introduced showing the identity of authorized drivers to make it easier for Police control on the site of accidents or at checkpoints.

We have successfully convinced Government that it was not a good idea to implement a single-registration-plate system for vintage cars (as it was intending to do), since that would have weakened insurance control.

We are working with our member Insurers and the ADT to ensure that the motor vehicle database at the Information Centre has a record of the insurance status of all locally registered vehicles.

To be effective, we must close a 30% gap in the number of policies, which Insurers are not regularly updating with the Information Centre, and we must also extend the database to include cancellations and insurance cover transfers. Both these shortcomings increase the market's vulnerability to a higher incidence of uninsured claims.

I.3 Working with government

In the implementation of policy which directly affects the Insurance Industry, MIA collaborates actively with Government to ensure that the views of its member Insurers are taken into account. Previous engagement with ADT and the Local Wardens has shown that, when all interested parties engage in dialogue, reasonable solutions can be found which will increase all round efficiency.

Another significant achievement marks MIA's collaboration with the Malta Standards Authority (MSA) in the definition at national level of a Standard Quality Mark for Motor Vehicle Repairs. By further persuading MSA to take over the certification of repairers, MIA has succeeded in turning its own well-respected private initiative into a nationally backed regime.

MIA has also pursued this initiative by encouraging the Malta College of Arts, Science and Technology (MCAST) to provide more of those areas of vocational training to repairers and surveyors which, up to now, MIA itself has been providing through its alliance with Thatcham. The MCAST Institute of Mechanical Engineering has already started to offer a variety of useful courses in respect of motor mechanical repairs and is clearly planning on improving body-repair training by building a workshop and investing in terms of equipment and tools.

MIA has also worked closely with Government's appointed Euro Observatory in order to facilitate the rules governing the national currency changeover to the Euro, which will be taking place on 1st January 2008. MIA has argued convincingly that, in cases where dual price / premium display (in Malta Liri and in Euro) is exceptionally complex, Insurers should be able to implement alternative methods.

Similarly, MIA is also involved in discussions with the Ministry for Social Solidarity on the transposition of the Gender Equality Directive. The deadline for the implementation of the directive is 21st December 2007.

The measure introduces the principle of gender equality to all Insurance contracts written after the measure has been implemented. Member countries may allow differences. However, for this to be possible, Insurers must be able to refer to precise actuarial and statistical evidence to demonstrate that the differences are crucial factors in the risk assessment, and the data must be compiled, published and kept up to date under the control of the member country.

I.4 Public relations

MIA has long felt the need to improve the Insurance Industry's public image; Insurers need to be seen to be acting fairly with consumers.

The initiative taken by the Motor Insurance sector, to resolve delays in settling costs to "innocent" third parties, is a good example. A claim to an "innocent" third party would be paid in any case – so why increase hardship by bickering on who should pay, thereby making life unnecessarily difficult for the "innocent" victim while simultaneously giving a negative image to the Industry as a whole?

MIA is also striving to publicise the Insurance Industry as a success story.

If people in general have a broad knowledge of how Insurance works, then frivolous criticism of risk assessment, claims handling and other Insurance operational aspects would surely be prevented.

II. Motor Insurance

This segment of the report will focus on a very important and substantial sector of the Maltese Insurance Industry – the coverage of motor vehicles, as well as a number of ancillary issues that have left their mark on this sector during 2006.

II.1 Statistical trends

The gross written premium for motor insurance reached MTL 25 million in 2005 (ca. €58.2 million); there has been a very slight increase in premium income in 2006. Motor insurance remains the most important class of non-life business in terms of premium volume, accounting on its own for 50% of the non-life market.

The gross incurred claims amounted to MTL 13.7 million (ca. €31.9 million) in 2006. The ratio of gross incurred claims to gross earned premium works out at 54% in 2006, thus showing a positive result after several years of losses.

It is against this backdrop that MIA has striven to promote its members' interests through regular meetings as well as through consultation with national entities to which it provided valuable input.

II.2 The eVERA system

The term "eVERA" stands for the vehicle road licence on-line renewal system. This is not a stand-alone system but forms part of a larger project that encompasses the role of the Information Centre. The latter is an insurance database specifically intended to facilitate the compensation of traffic accident victims through the easy identification of the Insurer covering the vehicle causing the accident.

In the absence of other evidence, this database is vital to determining whether road liability is covered by insurance or not. Therefore it is important that it should capture the insurance status of all Maltese registered vehicles, without exception.

Considerable progress has been made in the setting up of the said database. The main infrastructural framework is in place and so is the insurer gateway.

However, transactions relating to cover cancellations and insurance cover transfers still cannot be input in the system.

Work on this project is therefore still in progress MIA is maintaining the pressure in its discussions with ADT and Malta Information Technology and Training Services Ltd (MITTS) in order to further improve the current platform.

After some controversy, even within the Motor Sector itself, it is now well acknowledged that the most efficient and accurate way of matching insurer records with those on eVERA would be by utilising the vehicle's unique system number. This is preferable to a vehicle's VIN as well as to its make/model data or registration since these alternatives present considerable room for error and search failure (with the consequent result that a vehicle would be mistakenly marked as uninsured).

The system number is a unique six-digit number that is allocated by the eVERA system to each vehicle and remains with that specific vehicle throughout its lifetime, even when ownership or VRN changes. This number is shown both on the vehicle's logbook as well as on its Road Licence.

On its part, MITTS has supplied each Insurer with a file containing the system numbers of all the vehicles held on the said Insurer's books. This data is being utilised by the Insurer to populate its insured vehicle database with the respective system numbers.

As regards the insurance of brand new vehicles, whose system number would not be available to the insurer at the time of putting such vehicles on its books, MITTS will be supplying each Insurer on a monthly basis with the system numbers of the brand new vehicles insured during the previous month. This update is available as a web service, thus making the process of updating the Insurers' records an automated one.

Regular consultations with ADT have also resolved a number of other issues.

When settling a claim for a stolen vehicle, an Insurer requires the claimant to surrender his legal title to the vehicle by affecting a transfer of its logbook. In this way, the missing vehicle would belong to the Insurer if it were subsequently recovered.

An administrative solution has been found to ADT's previous practice of refusing to issue a copy of the vehicle's logbook when, in many cases, this would have gone missing with the relative vehicle.

II.3 Road accident reporting – eTARS

In 2006, the five-year agreement between MIA, Motor Insurers and the two Local warden firms reached its halfway stage. The Sector has therefore taken stock of the situation, looking back at what had been achieved so far and also looking forward to the future prospects. In the meantime, MIA has also has taken the opportunity of starting discussions with other providers in order to widen the selection process at the renewal of the current arrangements.

Motor insurers acknowledge that the product itself as well as the service standard has generally improved since the inception of operations, though there still is room for improvement in certain aspects.

At MIA's insistence, warden officials are also reporting intoxicated drivers to the Police for prosecution; a proper and more direct reporting channel for this purpose has been set up.

MIA is concerned at the possibility that future pricing will be affected by pressures to factor the operational disruption caused when warden officials are summoned to testify in Court. In this regard, MIA is initiating discussions with the Justice Ministry in order to allow wardens to give evidence by affidavit.

The system should further cater for the availability of the original statements signed by the accidented parties in the presence of the reporting wardens. Such evidence may be crucial in disputes involving high-valued claims; in this case, it has already been established that an additional annual cost would be required to cover a structured storage of these documents.

II.4 Transposition of the Fifth Motor Insurance Directive

During 2006 and early 2007, discussions were in regular progress with the Ministry of Urban Development and Roads (MUDR) on the transposition of this Directive into the local legislative framework.

One of the main tenets of this Directive relates to the minimum compensation limits payable in respect of road accidents, which are optionally set at € 1 million per victim or € 5 million per event in respect of personal injury.

As regards damage to property, the limit has been set at € 1 million per claim, whatever the number of claimants.

MIA successfully lobbied – through the Inter-Ministerial Committee specifically set up for this purpose – in favour of the adoption of a € 5 million liability limit per event in respect of personal injury, regardless of the number of victims.

MIA's position is soundly supported by statistical evidence, following an internal survey of multiple-victim accidents specifically carried out amongst its members in 2006.

The transposition date of the Fifth Motor Directive was 11th June 2007. However, a five-year moratorium (ending on the 11th June 2012) allows for the gradual increase of third party compensation cappings to 50% of the required limits within thirty months from the transposition date; that is, by 11th December 2009.

MIA has therefore carried out a second survey among its members in order to be in a position to further advise Government on the extent of this impact.

The feedback has confirmed, if ever there was need for such confirmation, that the restructuring of Motor liability policies in compliance with these higher limits would affect Insurers' reinsurance arrangements and very likely the current motor insurance premiums.

Capping the minimum amount of cover for bodily injury at € 1 million per victim means, in effect, unlimited cover per accident (since the number of victims cannot be known in advance). Many reinsurers may not be willing to provide cover (thereby further reducing the size of an already restricted market) or would dissuade its purchase by charging punitive rates.

MIA's survey clearly showed that this option was the most expensive although the cost could not be quantified precisely. The results have also shown that the other option, namely capping the minimum amount of cover for bodily injury at € 5 million per event, was more manageable, and that there was a cost advantage in a staggered approach.

Consultations were also held with the Maltese Permanent Representation in Brussels to establish the implications of prolonging Malta's transposition of the 5th Directive.

Another provision of the Fifth Motor Insurance Directive requires that the Protection and Compensation

Fund (PCF) should guarantee compensation to victims of insurance-exempt vehicles.

Since Government is the only owner / operator of such vehicles in Malta, this would put the Fund (which is itself funded by all Motor Insurers) in the undesirable situation of financially supporting Government's motor claims. A financial subsidy of this nature is not intended and MIA is therefore striving to reach an agreement with Government whereby it will refund to the PCF any compensation so paid together, with expenses.

The Directive is presently still in the process of being transposed into local legislation; this process should, however, be concluded very shortly.

II.5 Bodily Injury - Legislative proposals on quantification of damages

Within the scope of Act VI of 2004, MIA has addressed a number of options that could constitute criteria for the assessment of damages in respect of death or bodily injury.

These include proposals for the gradual introduction of non-pecuniary damages, rules governing compensation for future healthcare and the capping of the maximum amount of damages for loss of future earnings at MTL 250,000 (ca. € 582,000).

Parliamentary Secretary Dr Carmelo Mifsud Bonnici is himself chairing a commission set up specifically to examine this draft legislation, following which the proposal will be presented to the Cabinet for its approval.

II.6 Claims-Handling Code of Practice

The Motor Sector appointed a sub-committee to review and update this Code in order to bring it in line with modern practices.

The opportunity was also taken to consider the broadening of the Code in order to make specific provision for the settlement of claims to "innocent" third parties.

In mapping its approach, the Motor Insurance Sector has laid emphasis on the social corporate responsibilities of its members in relation to the accidented third parties who are clearly not at fault in relation to the damages they suffer.

The Sector had to carefully balance this principle with the fault-based nature of indemnity as well as with the legitimate expectations of the other parties that a claim should not be attributed to their policy unless they are actually at fault.

From the very outset, the Sector highlighted the sensitivity of this issue and stressed that its proper management was essential; failing which, the issue would end up raising controversy in the local media and attract undesired negative publicity.

The proposed solution would require that innocent third parties should be paid and that such payment should not immediately affect the claims record – and hence the no claims discount entitlement – of the other accidented parties, on condition that procedures are in place for determining liability through arbitration.

A draft of this Code has been finalised. Two versions will be circulated: an integral version for Motor Insurers and a filtered version for general public consumption.

II.7 VAT on Motor Vehicle Repair Claims

During 2006-2007, MIA pooled its resources with the VAT Commissioner as well as with the Data Protection

Commissioner in order to give a clear direction to its Motor Sector members on the VAT treatment of claim payments.

Though the relevant national legislation had remained substantially unchanged since its enactment, several factors have in the interim confused the issue.

Commercial relations between motor insurers and parts suppliers and repairers had developed in the wake of the Motor Insurance Repairs Efficiency (MIRE) Project, whilst political pressure was levied by the Chamber for Small and Medium Enterprises (GRTU) in order to force Motor Insurers to pay this tax element even when it was recoverable by a VAT registered claimant.

Circulars have been issued and market meetings – involving also Motor Claims personnel – have been held in order to explain the correct treatment of VAT in the handling of Motor claims.

The overall guiding principle remains that, in their transactions with repairers or parts suppliers, Motor Insurers should never assume the role of purchasers. Rather, they should clearly highlight their role as compensators under an indemnity policy.

This must be clearly and unequivocally reflected in the documentation released by the Motor Insurer to the service provider concerned.

There are important benefits to be derived by preserving this role. Firstly, Insurers would not assume the responsibility of guaranteeing the repair works since they would not have commissioned these themselves.

Secondly, they would be able to deduct the VAT element from the claim cost, in those cases where the claimant is entitled to set off VAT.

On his part, the VAT Commissioner has supported the idea that Motor Insurers are not purchasers of repair services; but the Commissioner had also stressed that this should be clearly indicated in the relative documentation.

II.8 Motor Insurance Certificate

In order to enable a better means of control, whether on the site of an accident or at road checkpoints, MIA has come to an agreement with the Police that the Certificate of Motor Insurance should show the identities of authorised drivers.

Legal Notice 243 of 2006 implemented the required legal changes, following which the Motor Certificate in its new format will become mandatory with effect from 1st January 2008.

MIA has been involved in the roll out of this change and has advised the market to start issuing from this year the new certificates in a staggered manner to all their clients, as the respective policies are renewed. This will enable all local motorists to be in line by December 2007.

The purpose of the change is to expose the identity of authorised drivers, as a means of preventing uninsured users from handling a vehicle. However, rather than adopting a common market approach, such identification has been left to each individual Motor Insurer on condition that it can be ascertained clearly and unequivocally from the certificate.

Naturally, certificates will have to be retrieved and replaced in case of changes to an insured vehicle's authorised drivers during the currency of the respective policy.

II.9 Insurance Cover for Classic or Vintage Vehicles

The Ministry for Urban Development and Roads (MUDR) approached MIA for its comments on the proposal put forward by the Federazzjoni Maltija Vetturi Antiki (Maltese Federation of Vintage Vehicle Owners) of a multi-vehicle single-plate system.

This would have enabled bona fide owners of classic vehicles to have a single registration plate for all their vehicles, to be utilised on one vehicle at a time.

Such a system would have weakened Insurance control and would have fostered confusion at the local Information Centre, once it would no longer be possible to identify an accidented vehicle – or its Insurer – from amongst a “fleet” of vehicles all bearing the same registration.

Therefore, Motor Insurers could not agree to the issuing of a single Insurance Certificate in respect of several vehicles belonging to the same insured.

After liaising with its members on the issue, MIA successfully argued with the MUDR against the adoption of this proposal and insisted on the retention of the present system of one individual Insurance Certificate for each separate vehicle.

II.10 Uninsured Driving

MIA had lobbied Government to mirror the approach taken by the United Kingdom; namely, to make it an offence to keep a vehicle without insurance cover. In other words, unless a vehicle was laid up and its registration plate handed over to the licensing office, the vehicle had to be covered by Insurance.

However, discussions with the MUDR and ADT representatives brought to the fore the Government’s preference for linking uninsured driving with the offence of driving an unlicensed vehicle.

ADT has declared that it will be adopting a zero tolerance for uninsured vehicles, through a clamping drive, and that this will indirectly filter away uninsured vehicles. This was because a vehicle’s road licence cannot be renewed without submitting proof of insurance. Additionally, a vehicle owner cannot retain the registration plates of a motor vehicle if he does not renew its road licence or insurance cover.

This concept has been enshrined in a recent amendment to the new Motor Vehicle (Registration and Licensing) Regulations, 2004.

II.11 Vehicle Ringing

This has been another issue that attracted MIA’s attention during the preceding months and about which discussions were held with the MUDR.

In the United Kingdom, a coordinating process between Insurers, vehicle scrap dealers and vehicle road licensing combats vehicle ringing. Severely damaged vehicles, which can only be scrapped or written-off, are flagged by the authorities to prevent the theft of their identity.

MIA’s proposals concerning this issue initially met with a lukewarm response; however, its continued insistence on the matter has recently given a renewed impetus to the proceedings.

II.12 LPG Carriage by Road – Risk Assessment

The local distribution of Liquid Petroleum Gas (LPG) cylinders constitutes road carriage of dangerous goods, for which third party liability insurance was being officially withheld though unwittingly given.

The distribution network is operated by a fleet of around fifty trucks that deliver the LPG cylinders to the consumers' doorstep. Motor insurers have therefore sought to determine whether this activity presented undue hazardous risks, which justified specific underwriting and safety considerations.

MIA sought professional advice and an Italian expert[3] was identified for the compilation of a risk study report on the carriage of LPG cylinders by the current fleet of distribution vehicles in Malta as well as on the risks relating to its subsequent storage.

During an on-site assessment, Ing Maffezzoli met senior officials from the Malta Resources Authority, the Malta Transport Authority, the Malta Maritime Authority as well as Enemalta Corporation. Inspections were also carried out at bulk storage commercial sites as well as on the only local vessel authorised to carry hazardous goods on inter-island trips within the Maltese archipelago.

The resulting report dispelled the insurers' initial concern about the carriage of LPG cylinders by road. The assessment classified the present carriage of LPG cylinders as an acceptable risk whilst noting that the accident probability was very unlikely.

An important proviso related to the road carriage in bulk of LPG as well as to the relative storage tank refilling operations; the accident probability of this operation was categorised in the report as will occur sometime.

MIA has therefore sought the support of the Malta Resources Authority for the measures that its member Insurers will necessarily have to implement in order to control this risk.

III. MIRE - Motor Insurance Repair Efficiency Project

During 2006, MIA continued in its efforts to promote efficient repairs and repair appraisals, based on the Thatcham timings concept.

Regular meetings were held between MIRE and the Motor Surveyors' Association, on matters of joint interest; the MIA also participates regularly at Technical Committee meetings.

III.1 Standard of Motor Repair

MIA continued in its active collaboration with the Malta Standards Authority (MSA) for the drafting of a national Motor Vehicle Repair Standard.

This standard establishes the necessary minimum requirements for Garages to carry out repair works reliably, safely and in a professional manner. This standard does not cover requirements for vehicle servicing.

Such established bodies as the Chamber for Small and Medium Enterprise (GRTU), the Malta Transport Authority (ADT), the Malta College of Arts, Science and Technology (MCAST), the Employment and Training Corporation (ETC), the Association of Car Importers (ACI) as well as the Federation of Industries (FOI) were similarly involved in this project.

The announcement of the initial draft in the Government Gazette was followed by a period of public consultation, during which MIA submitted further proposals based on vehicle body repair specifications compiled by the British Standards Institute. The standard has since been approved and has been officially published by the Malta Board of Standards.

1 Ing. Umberto Maffezzoli is a Chemical Engineer and a member of the National Fire Protection Association (USA). He provides consultancy services to a European client base on such issues as Fire Fighting, Industrial Safety and Risk Analysis, Environmental and Safety Management Systems, Occupational Health and Safety etc…

The Malta Insurance Association has shaped many aspects of this standard. Key features include:

Specifications by research bodies: The Standard's refers to industry-recognized research bodies, such as Thatcham, as one means of determining the repair specifications that must be attained.

Back-office facilities: The requirement that a repairer must provide back office facilities in order to enable damage assessment, estimation and the audit of his garage.

Repairer know-how: The requirement that a repairer must have at least one technically-trained person who assumes overall responsibility that the vehicle repair activities are carried out in accordance with the Standard.

Technical publications: The requirement that the repairer and his employees must have access to research-based publications such as those made available by Thatcham.

Records: The requirement that repair records are to be retained by the repairer, including the names of the operatives involved and a quality conformance declaration.

Spare Parts: The requirement that spare parts should be either originals or of matching quality under a recognised conformity certification scheme, such as the Thatcham Parts Accreditation Scheme.

Outsourcing: The clear enunciation of the principle that a repairer is responsible directly for any works that he out-sources, and the ancillary obligation of disclosing this fact to the owner of the vehicle.

Contractual obligations: Clear and accurate details of the repairs are to be agreed before commencement and any modifications cleared with the owner of the vehicle.

The Standard is an entirely voluntary one. Repairers are not legally obliged to obtain MSA certification. It is therefore incumbent upon motor insurers to require that repairs should only be commissioned to garages which obtain such certification.

III.2 Garage Inspections – Devolution to the Malta Standards Authority

The MSA has a certification arm that enables it to carry out audits. Having raised the standard of garage repairers through its own approval and audit systems, it had become MIRE's goal to devolve this function to a public authority.

The devolution of this function to the MSA's certification arm was therefore a natural evolution for the approved repairer scheme initiated by MIRE ten years ago.

The MSA is now carrying out audits of repairers whose MIRE approval is about to expire. This has come after a process of preparation in which both MIA and MSA have been intensely involved.

At a second stage, consultations took place as regards the personnel carrying out the tests. The audit procedure and checklist have also been discussed. And, naturally, the whole handover process has been explained to the over two hundred repairers currently on the Motor Insurers' approved list.

Finally, a memorandum of understanding has been agreed between MIA and MSA. By means of this agreement, Motor Insurers have undertaken recognition of the MSA certification and committed their preference for commissioning repairs at MSA-certified garages.

Motor Insurers' backing for the MSA certification is a sine qua non; failing which, the effectiveness and validity of the overall project would be neutralised.

MIA sits on the MSA certification board; this is effectively an opportunity for Motor Insurers to shape this new process in its early formative years. There is otherwise the danger that MSA's certification will put all the emphasis on the availability of the prescribed management and operational requirements without testing technical competency.

In order to achieve a seamless transition to MSA certification, MIA / MIRE retained its own garage audits throughout 2006. Indeed, audits were actually stepped up so as to ensure that every approved repairer was at least subject to one inspection in the preceding twelve months.

III.3 Surveyor Training

MIA continues to favour the option of devolving future training courses to the Malta College of Arts, Science and Technology (MCAST).

The latter's Institute of Mechanical Engineering offers a variety of useful courses in respect of motor mechanical repairs and is clearly planning on improving body-repair training by building a workshop and investing in terms of equipment and tools.

Though its emphasis seems to be more on the training of repairers than of surveyors, it would equally be in long-term interests of Motor Insurers if MCAST were not to neglect this ancillary field.

MIA has therefore sought to strengthen its relations with MCAST. It has found support to the proposal that it be allowed to monitor the relative courses as a preliminary step to coordinating future training initiatives.

In the meantime, MIRE was required to retain surveyor training as part of its on-going agenda. In so doing, MIA has encouraged the Surveyors' Association to take ownership of the training needs of its own members.

A refresher course for existing surveyors, organised in 2006 but held in January 2007, has shown that such joint ventures work well. The MIA has facilitated Thatcham's involvement and it was of assistance in drawing up the course content and securing the necessary financial credit.

Viewed as an integral part of the continued development of surveyors, MIA further made attendance compulsory for all registered surveyors.

III.4 Surveyors' Technical Committee

During the meeting held between MIRE and the Surveyors' Association in June 2006, it was decided to reinstate the former Technical Committee as well as to revamp its terms of reference.

The following specific terms of reference were therefore adopted:

To promote the clarification and proper implementation of the correct use of Thatcham timings throughout the market.

To issue clear and unequivocal guidelines on the extent of structural (or other) damage required to justify replacement.

To monitor market practices on the disposal of wrecks as well as on their repair and their subsequent reintroduction on local roads.

The Committee serves as a forum for the discussion of technical issues, from which clear guidelines are then to be issued to motor surveyors.

The Committee has since made several recommendations to the MIRE Consultative Committee ranging from Garage operational standards to the disposal of vehicle wrecks and from the rectification of vehicle structural damage to vehicle electronic components.

III.5 Vehicle Group Rating

Currently vehicle premium is rated in accordance with engine capacity. Motor Insurers who participate in MIRE have generally felt that the link with engine strength is only a partial reflection of the vehicle's overall risk factor. A more comprehensive framework would include other parameters such as:

Power to Weight Ratio – this compares the power generated by a vehicle's engine to its mass and serves as a performance indicator.

Euro NCAP Rating – the European New Car Assessment Programme rates vehicles according to the degree of safety they provide to their occupants in case of road accidents; this is done through performing a series of crash tests on each vehicle concerned, comprising frontal and side impacts as well as pedestrian impact.

Security Rating – this rates how well a vehicle stands up to attempted theft, both of the vehicle itself as well as of its contents, while taking also into consideration the security features which come as standard equipment with a vehicle and those which have to be purchased as extras.

Vehicle Value – this compares the purchase price of a vehicle with the cost to own and operate it; the lower are the ownership and operational costs, the more cost-effective is the vehicle and the more value-for-money it provides.

Repair Cost – this compares and contrasts the repair and time costs required to return different vehicles to their pre-accident condition, bearing in mind that such costs can be a significant component of a vehicle's overall operational costs.

Parts Availability – this is particularly relevant to the Maltese scenario since it establishes the extent to which replacement parts are available for each particular vehicle, taking also into consideration the waiting time if they are not.

To this end, MIA has received a submission of a prototype vehicle-grouping model from a consortium which it had tasked with this project. The consortium has shown that each risk factor can be separately assessed in accordance with a defined set of objective criteria.

The proposed model has also shown that it is possible to rate each factor separately and to allow different weightings to be given to each parameter at insurance company level.

Moreover, because of distinct risk vulnerabilities, it is equally possible to assign a vehicle to different group indices, depending on whether it is being rated solely for liability purposes or for additional own damage cover.

However, a vehicle model's group rating would not be the only factor to establish the overall premium to be charged in respect of that particular model. Each Insurer would be free to establish the weighting to be allocated to the vehicle's Group in the overall premium calculation.

Research into a vehicle's grouping would therefore provide a benchmark. Insurers would in addition have to set up their own underwriting systems in order to capture, weigh and apply a rating coefficient to each risk factor. Such an underwriting model has not yet developed.

Another challenge borders around the continued availability of routinely updated vehicle groupings. Once the premium rating system is upgraded to include Group Rating, there would not be any turning back.

Furthermore, the Group Rating system would necessarily entail an ongoing exercise that has to be kept in progress in order to cater for the vehicle models that are constantly being introduced in the local market.

The market is presently in a crossroads situation and has to decide which way to turn. Whilst vehicle groupings will provide a more precise risk-based rating structure, it is not at all certain that a "big bang approach" is feasible or at all achievable. If the market's goal is to develop a risk-based methodology to price motor insurance, then surely one has to segment that risk into its component perils, and develop appropriate techniques for each component. This is how this initiative will be driven forward.

III.6 Electronic Estimation System

A core group of insurers[4] have integrated an electronic estimation system into their surveying operations.

MIA has coordinated this project minutely during 2006, by taking a leading role in its negotiation and finalisation and by serving as the contractual kingpin to the software licensing arrangement with Glass's Information Services.

MIA is pleased that its contribution has been instrumental in achieving an overall satisfaction in the organisation and the implementation of the Glassmatix electronic estimation system.

Apart from the training and logistical aspects surrounding this project, careful attention had to be given to many complexities – including financial ones – of an unusual nature.

This electronic estimation system is currently in its full implementation and the insurers concerned are reaping the inherent advantages it provides from the surveying, estimating and statistical aspects.

IV. Conclusion

The continued development of the aforementioned issues present significant challenges to MIA and will require its continued efforts and unwavering commitment over the next twelve months.

In order to be better prepared to take on these challenges, MIA is planning to further enhance and develop its ongoing dialogue with policy-makers at national level while continuing to cooperate with CEA at international level.

MIA has made positive headway in dealing with the several issues with which it has been confronted in the past twelve months. Its unrelenting commitment to its members' interests will ensure that the ongoing momentum is equally maintained in the coming year.

4 GasanMamo Insurance Ltd, Middlesea Insurance Plc, Atlas Insurance PCC Ltd and Elmo Insurance Ltd

The Netherlands

I. Market developments in 2006

The premium volume for motor insurance in the Netherlands rose only slightly in 2006, by 0.4%, in comparison to 2005, despite the inflation figure of 1.1%. This very modest increase is surprising because the number of cars on the road in 2006 grew further by in excess of 1.9% and the premium reserve as a percentage of earned premium fell by 1.5 percentage point. The actual fall in the premium volume when corrected for these factors works out at more than 4%. The fall is a consequence of the fierce competition in the motor insurance sector combined with a low burden of claims in 2005, that led insurers to make further cuts in their premiums.

The result after interest and after reinsurance rose from 8.7% of earned premium in 2005 to more than 12.5% in 2006, thanks to a sharp fall in the burden of claims. The figures show that the number of hospital admissions and fatalities resulting from road accidents fell sharply in the past year. The number of hospital registered road injuries fell from 9,401 to 9,055, a decline of almost 4%. The number of fatalities dropped from 817 in 2005 to 811 in 2006. Furthermore the number of reported claims decreased and the theft of motor vehicles diminished in the year under review.

There was a sharp fall in particular in the theft of private vehicles and business vehicles. By comparison with 2005 there were 8% fewer vehicles stolen in 2006. In 2006 the result before reinsurance of third party motor vehicle insurance showed a market rise from 6% in 2005 to 18% in 2006. The highest rise occurred for private vehicles, the biggest product group in the motor vehicle insurance sector, from 10% in 2005 to 22% in 2006. For company vehicles the result before reinsurance rose from -8% in 2005 to 8% in 2006. For both product groups the release of the claims reserve for injury claims played a major role and this is possibly connected with a more rapid settling of injury claims. For comprehensive all-risk insurance the result fell from 19% in 2005 to 14% in 2006. This is a result of a decline in the result for all-risk for private vehicles from 18% in 2005 to 9% in 2006. All-risk insurance is often taken out for new cars. So this could be related to the lower premiums on new policies as a consequence of the fierce competition in the industry.

II. Important events during the year

II.1 Legislative and statutory

II.1.1 Payment of compensation to next of kin and those immediately involved.

Draft legislation is still passing through parliament which would allow compensation to be awarded to next of kin of those who have died or have been left with a serious permanent injury for which a third party is liable. The Association of Insurers in the Netherlands has strongly advocated that this legislation should narrowly define the circle of those who are eligible as well as setting a fixed amount for compensation (€10,000) to prevent discussion arising as to those who are entitled or to the amount of the compensation.

II.1.2 Preliminary draft legislation on compensation for income for next of kin

The Ministry of Justice put forward the idea in 2005 for a draft bill with an arrangement for next of kin to recover costs and loss of income caused by the injury of a next of kin to a much greater extent than is possible at the moment. The proposal came in response to a motion passed in Lower House of Parliament in which the government was asked to prepare legislation, which would enable immediate family and employers to more easily recover the loss of income and other loss that they had suffered, from the perpetrator. The

Association of Insurers has made comments on the draft bill, but the Justice ministry has not yet submitted the legislation to parliament.

II.1.3 5th EU Motor Insurance directive

Close discussions were held with the ministries of Justice and Finance about the implementation of the 5th EU Motor Insurance Directive in the Dutch Motor Third Party Insurance Act (Wam). The minimum insured amounts in particular were the subject of the talks with the ministries. After ample discussion the "gold plating" in relation to the EU directive has been abandoned. For material damage a minimum insured amount of €1 million per event will be included in the legislation and for personal injury a minimum amount of €5 million per event. In the case of vehicles carrying more than eight persons the minimum insured amount is €10 million for personal injury per event. For the transport of hazardous substances the minimum insured amount will be raised to €10 million. The excess of the Guarantee Fund (Waarborgfonds) will be raised from €137 to €250, if an excess applies.

The draft legislation passed through the upper and lower houses of parliament in 2007 without undergoing any amendments. The Act came into force on 11 June 2007. The insurers have already modified most policies accordingly and this process passed off without any problems worth mentioning.

II.1.4 Compulsory insurance for trailers and caravans

As mentioned earlier the Association of Insurers would have liked to have seen compulsory insurance for separately registered trailers and caravans included in the 5th EU Motor Vehicle Insurance Directive. Although many are of the opinion that in the 1st Directive this obligation had been included, it proves in practice that in the various EU member states this is not the case. . In the Netherlands, too, the repercussions of the lack of compulsory insurance are being felt since caravans and trailers now have separate number plates. There are regular reports that the lack of separate compulsory insurance for caravans and trailers is leading to problems, all the more so since trailers in the international transport world frequently switch from vehicle to vehicle and it is not simple to trace the owner or the insurer of the trailer. The Association of Insurers very much hopes that the inquiry launched by the European Commission into compulsory insurance for trailers and caravans will produce positive results.

III. Market practices

III.1 The Recourse Clearing House

The Recourse Clearing House (Clearinghuis Regres), an automated system for settling recourse claims between the all-risk and third party insurers went on being developed in 2006. Meanwhile, legal assistance insurers have also joined the system. It is a non-competitive market instrument which aims at achieving an efficient handling of claims and further cost control. In 2006 an estimated 70,000 claims were dealt with on an annual basis among the participants with an average matching percentage of 72%. Although still not perfect the clearing house can definitely be regarded as a success.

III.2 Databank certificates of cancellation

In 2006 further work was done on setting up an electronic databank for certificates of cancellation in the framework of the bonus-malus system Depending on the ruling of the Association of Insurers, insurers supply their insurees with a statement giving the number of claim-free years upon termination of the policy. It has been decided to reduce the amount of paperwork so that there is less chance of these being lost. The system will be more customer-friendly and the procedure will be handled much more quickly. An additional advantage is that the separate record kept of malus registration is no longer needed. In September 2007 the electronic system became operational and would seem to be functioning without too many teething troubles.

III.3 Personal injury and protection of victims

Victims of road traffic and other accidents have to wait a long time for compensation especially in the case of serious injury claims. The process in which they become involved is not sufficiently transparent and is complicated. The Association of Insurers wants to simplify the process for one thing by introducing standard amounts for compensation and fixed procedures and protocols.

For some years now, insurers, as well as other parties involved, have been working closely, under the auspices of the University of Tilburg, to draft a code of conduct for dealing with injury claims. In mid 2006 the code of conduct was officially presented. The Association of Insurers in the Netherlands called upon its members to ratify their adherence to the code of conduct for dealing with personal injury claims dating from 1 January 2007 onwards. The application of the code of conduct requires changes to the processes of dealing with injury claims and a different way of handling injury cases by claim settlers. Organisations of victims have said that they fully endorse the code but we will have to see in practice whether those representing the interests of victims will also use the code.

The core of the code is an electronic plan of action containing agreements and deadlines between the parties. Victims too have access to the plan, albeit that they can only consult the documents and not edit them.

III.4 Road safety

In April 2005 in the north of the Netherlands a pilot project was launched called “Trials 2006, the ultimate driving test”. This road safety project, run by the Association of Insurers in conjunction with the road safety organisations, focuses specifically on young people who have had their driving licence for a year or eighteen months. The idea is to give them an appealing refresher course to show them the finer points of safe driving. Sadly, a relatively high number of accidents, often fatal ones, occur among the 18 to 25 year old age category. This is also one of the reasons for the high number of claims in this group. Since the pilot project in 2005 was regarded as having been successful, the project was extended in 2006 to a number of other regions and reached 1200 participants. Up to August 2007, 2000 participants had registered to take part.

III.5 Vehicle crime

The number of stolen motor vehicles (including business vehicles, trailers, semi-trailers and motorbikes) has fallen spectacularly in recent years, from approximately 30,000 in 2002 to around 18,000 in 2006. If the increasingly higher percentage of vehicles recovered is included the figures are respectively 12,500 and 8,000. No simple explanation can be found for the fall in the number of vehicle thefts but it would seem that the multi-track policy adopted by the insurers is beginning to bear fruit. These include checks on the processing of technical and economic total loss vehicles and the testing of vehicles after severe damage so that vehicle crime can be kept under control. But the introduction of compulsory starter interrupter devices in new cars a number of years ago has had a major impact that is still being felt because increasingly more vehicles on the road have such devices.

Norway

I. Market Development

I.1 Vehicle parc trends

The total number of insured motor vehicles increased by 1.4% in 2006. This is lower than the previous year, before which there had been an annual increase of over 2% since 2002. As in 2005, it was motor cycles which showed the biggest increase at 4.2%. Sales of new cars were however also high in 2006 - 158,407 new motor vehicles. This is the same level as in 2004 and 2005.

I.2 Premium and price trends

Combined premium income for the companies increased by 2.3% to € 1.81 billion. The average premium was € 545 at the end of 2006. This is a growth of 0.8%, as opposed to 2005 when the average premium was reduced by 0.7%.

There has been a gradually decreasing growth in average premiums in recent years – from an increase of 5.2% in 2002 to a reduction of 0.7% in 2005. The increase of 2006 may therefore indicate that this trend has now been reversed. The probability of an increase in average premiums is backed up by claims trends.

I.3 Claims trends

The number of claims increased by 5.6% in 2006 compared with 2005. The increase is greatest in collisions and in vehicles leaving the road, whilst claims for theft registered a reduction. This applies especially to theft of cars and is a trend which has continued for several years now.

Total claims settlements in 2006 are estimated to be € 1.22 billion, which is an increase of 8.3% from 2005.

I.4 Competition

The market is dominated by four large companies: IF, Gjensidige, Sparebank 1 and TrygVesta.These companies have a market share, measured in premiums, of about 91%. This is a reduction in market share from 2005, but this does not significantly change the position of these companies.

There is however a trend for the big companies to lose market share. From a level of 94.1% in 2002 the combined share of these companies has now fallen to 90.7%. It is primarily Terra Skadeforsikring which has been responsible for this development. This company has grown from a market share of 2.7% in 2000 to 4.3% at the end of 2006. Of the other companies, it is Vital Forsikring (AIG) which has contributed to the change in 2006.

Very good results in 2004 and 2005 led to increased competition between the established companies and to new players moving into the market. Trends in 2006 and in 2007 to date point to a significantly higher level of claims settlements. This will generate a need for higher prices and may cause competition between companies to increase even further.

II. Important events during the year

II.1 Vehicle recovery

In the Norwegian market there are 3 dominant players in the field of vehicle recovery and roadside assistance - Falck, Viking and the Norwegian Automobile Association. The Danish company Falck bought Viking Redningstjeneste in 2006, thus reducing the number of major players. Over time this may have had consequences for price levels and quality of service. The Norwegian Competition Authority has however ordered Falck to sell Viking Redningstjeneste's operations in Norway. The decision was later upheld by the Ministry of Government Administration and Reform.

II.2 Stop and sleep

Surveys have shown that 44% of Norwegian motorists have fallen asleep behind the wheel at some time. As many as 11% of fatal accidents in 2005 were caused by someone falling asleep at the wheel. Experience has shown that only two measures are effective. Don't drive if you are tired or stop and sleep – for at least 15 minutes.

The Norwegian Public Roads Administration is carrying out campaigns with the aid of newspaper advertisements, large roadside posters, information brochures and actions out on the roads. The message is to recognise the signals when you are getting tired at the wheel and stop and sleep for 15 minutes.

III. Changes to come

III.1 Control and cost monitoring of repairs

During the course of 2007, several changes will be made to modernise and develop the calculation system used for repairs to motor vehicles.

DBS – which is the insurance industry's joint computer system for calculation and repairs administration – has been adapted to new technology and placed on a new platform. This gives us greater efficiency, flexibility and development potential. We have exploited the strong points of the big computer together with the flexibility of the WEB tools.

The first fruit of the establishment of the new platform is DBS – Windscreen. This module provides the opportunity for the market to calculate standardised repairs for all companies using the same system. About 100,000 calculations are expected to be performed in the new module during the first year.

The next development activity is the improvement of frequency analyses for spare parts so as to support spare parts distribution. This is an area which has proved to be a challenge in recent years and there is a need for stimulating measures.

Following this comes the plan to allow for a wider selection of spare parts for all distribution channels which wish it and which meet the requirements. We have recorded great interest from suppliers in presenting their products directly in the DBS calculation tool.

III.2 Information about price changes

During the course of 2006/2007 Kredittilsynet (the Financial Supervisory Authority of Norway) has been working on a regulation which will oblige all insurance companies to advise of premium changes on renewal of insurance policies. The regulation also carries forward earlier rules requiring accessibility of information and will come into force on 1st January 2008. It was the office of the Consumer Ombudsman which took up the need for measures to improve competition in the non-life insurance market in its letter to Kredittilsynet in June 2006 and the industry has reacted positively to the content of the proposal.

The total premium change should appear by showing both the previous year's and the current year's premium on the invoice. The companies should also advise of premium changes due to change of risk. The obligation to provide information will not apply to insurance policies in the commercial market.

III.3 More people will get insurance

The non-life insurance companies in Norway have established an industry standard which ensures that even more customers have access to basic and necessary consumer insurance. The Consumer Ombudsman has previously maintained that it has been a problem for some people to buy the most basic forms of consumer insurance, usually because of particularly unfavourable payment or claims history, suspicion of fraud or other extraordinary high risk.

The industry standard came into force on 1st June 2007 and states that an insurance company can no longer as a general rule decline to offer insurance without reasonable grounds. The standard should ensure the necessary insurance for consumers in areas of basic social significance for most people.

In addition to motor insurance, the standard also covers home insurance, holiday home insurance, accident insurance and travel insurance.

The standard supplements the obligations under the Act relating to insurance contracts and is intended to strengthen the position of the consumer by limiting the opportunities for insurance companies to decline insurance.

III.4 Easier to change insurance companies

The insurance companies have, by means of an industry standard, made some simplifications in the internal rules for moving insurance and transferring insurance responsibility. The new rules will make it even easier for customers to change companies and will thereby make a further contribution to increased competition.

Previously, insurance companies have in most cases required a signed termination from the customer, to ensure a safe transfer of insurance responsibility from the old to the new company.

The new procedure, which applies from 1st June 2007, means that the new company will handle the termination of the insurance with the old company on the authority of the customer.

IV. Special comments

IV.1 Arranged collisions

Several networks operating arranged collisions have been revealed. In one instance, these were elderly vehicles, with customers from both Sweden and Norway. These were foreign nationals who "sell" cars to each other after they have received cash settlements from an insurance company. In several cases the cars were temporarily repaired, before acquiring a new owner and being involved in a new collision.

In another case, collisions were revealed between expensive cars and hire cars, where the intention was to receive cash settlement for damage to the car and later compensation for claimed personal injuries. An arranged collision was brought to light in November 2006. A foreign national had transported his 2005 model Jaguar to Norway, where it was positioned one night on a crossroads and driven into from behind by a hire car. When this case came to light in Norway, it was revealed through a very good insurance network that another person from the same country had also had his 2005 Jaguar transported around Europe to arranged collisions. It appeared that this Jaguar was involved in three arranged collisions, in Liechtenstein, Netherlands and Luxembourg. In all three cases the Jaguar was driven into from behind by hire cars, which were driven by different drivers who all lived in the same country.

Poland

I. Market developments in 2006

I.1 overview

In 2006 year the total (Branch I and Branch II) gross premium income reached the level of PLN 37,559,642 thousand with the 2006/2005 dynamics of 121,1%, and in division:

Branch I – life insurance - PLN 21,099,236 thousand
Branch II – personal & property insurance - PLN 16,460,406 thousand

The overall amount of gross indemnities and benefits paid totaled to PLN 16,869,285 with the 2006/2005 dynamics of 106.3%, and in division:

Branch I - PLN 8,461,896 thousand
Branch II - PLN 8,407,389 thousand

I.2 Motor

The gross premium income during 2006 in motor line business was /in thousand PLN/:

A/ Casco of land vehicles – 4,179,599 (with exclusion of rail vehicles)
B/ Compulsory third party liability – 5,435,818

With gross claims and benefits paid out:

A/ Casco of land vehicles - 2,863,824 (with exclusion of rail vehicles)
B/ Compulsory third party liability 3,362,482

And with:

A/ Casco gross claims ratio[5] - 66.30%,
B/ Motor TPL gross claims ratio - 73.95%

I.3 Economic environment

Economic situation of Poland improved in 2006 along with the improvement of the economic situation worldwide in both general view and in different sectors of economy and market. 2006 was characterized by a steady improvement of economic situation which began as early as 2005.

GDP in 2006 rose to 5.8% as compared to 2005 (in fixed prices).

Inflation rate during the year decreased to 1%. in comparison to 2.1 % in 2005.

Unemployment rate dropped from 17.6 % in January 2006 to a level of 14.9% in December 2006.

Improvement of economic situation can be seen in different sectors of economy, especially in finances and, in the consequence, also in insurance sector on which there are 65 acting enterprises.

From the time of Poland's EU accession (2004) insurance activities can be run, according to a uniform

5Gross loss ratio , calculated as the ratio of total gross indemnities and benefits and the change in technical provisions for gross indemnities and benefits and benefits to the premium earned on own account license, by the insurers licensed within the countries of European Economic Area.

Preliminary trends noted during the first few months of 2007.

II. Important events during the year

II.1 Legislative and statutory

The Law dated 21 July 2006 concerning financial market supervising is one of the most important acts which came in force in 2006. The Law implements the concept of consolidated supervising, i.e. the full organizational integration of supervising authorities which are functioning on the financial market. Financial Supervising Authority appointed by virtue of a legal act has taken over the supervising functions in the scope of banking, insurance, pensions, capital market, electronic money institutions and complementary supervision.

The Parliament has also adopted the law dated April 27th 2006 concerning the amendment to crops and live stock insurance surcharge where two risks have been excluded which were previously included.

In 2006 intensive works were commenced at the amendments to the Civil Code in respect of insurance contract. The works were finally accomplished in 2007.

As from 1st January 2006 the minimum guarantee sum concerning MTPL were changed (raised)

As from 1st January 2006 a technical inspection carried out after a repair being done, which cost exceeds PLN 2000, is understood as a regular consequences of a loss and covered by an insurer irrespectively this concerns autocasco or MTPL policy.

In the mid of 2006 the Minister of Health presented the first draft of law amending the act concerning medical care benefits financed out of public means - " Act amending the Act on Healthcare Benefits Financed from Public Funds and the Act on Obligatory Insurance, The Insurance Guarantee Fund and the Polish Motor Insurers' Bureau"

The draft introduced a lump-sum fee paid for the National Health Fund (NFZ) by insurers in amount of 12% / for 2007/ of gross premium collected from MTPL insurance.

II.2 Market practices

In 2006 takes its big impact new and almost revolutionary in that region of Europe method of selling – direct selling. You may say that in 2007 the direct policy selling is in full swing.

III. Foreseeable future developments

III.1 Effect of the single market

Gradually, more foreign entities are entering Polish insurance market on a FOS basis and it is clear that this tendency will grow in the future – with any deregulation effect as so far.

III.2 Market structures and practices

The Government proposal sent to the Parliament in 2006 / with possible effect in 2007/ tends to abolish the existing practice of claim's settlement on a vehicle damage cost evaluation /on Audatex/Eurotax basis/ and functioning as an instant insurer' proposal "take-it-or-leave-it" claim's settlement without proving from claimant's side that the vehicle has been repaired.

Regarding the development of crime and fraud prevention policies?

It seems that the more effective methods of the Police activities resulted in a noticeable drop of vehicle stealing statistic figures. Also an inflow of second hand cars from abroad meant for spare parts may serve as real restriction in demand for spare parts being dismantled from stolen vehicles.

Of no consequences at present.

III.3 The transposition of the 5th Motor Directive

The Fifth Communication EU Directive imposes on EU (new) members states an obligation to raise the minimum guarantee sum of communication compulsory third party liability policies up to 5 mln EUR for bodily injury per event regardless the number of participants involved (or optionally 1 mln EUR per person) and respectively, 1 mln EUR for material loses per event regardless the number of participants involved.

The deadline for the implementation expires on 11th June 2012.

The Polish Parliament has adopted the version of 5,000,000 euro per event regardless the number of the injured persons involved and 1,000,000 Euro per event in case of damage to property despite the number of the injured persons. The Act has been signed by the President of Poland in the mid of 2007.

The transitional periods to reach the final provisions of 11th June 2012 are:

- For insurance contracts concluded till the 10 December 2009
  1,500,000 euro per event irrespectively of the number of the injured persons
  300,000 euro in material losses event irrespectively of the number of the injured persons
- For insurance contracts concluded from 11 December 2009 till the 10 June 2012
  2,500,000 euro per event irrespectively of the number of the injured persons
  500,000 euro in material losses event irrespectively of the number of the injured persons

Finally, for insurance contracts concluded from 11 June 2012 - 5,000,000 euro per event regardless the number of the injured persons involved and 1,000,000 euro per event in case of damage to property despite the number of the injured persons.

Portugal

I. Market developments in 2006

In 2006, the total volume of premiums from insurance contracts was 13.1 thousand million Euros – 8.5% of the Portuguese GDP – of which around 2/3 was from the Life branch and 1/3 from the Non-Life branches.

However, In contrast with the previous year, the evolution of Direct Insurance production was negative. This was due to a decrease in Life business, in spite of its extraordinary development in recent years, but it also had little support from the non-life segment which had its lowest rate of growth since, at least, 1980.

In the Life branch, there was a degree of adjustment, after the extraordinary growth of the previous year, but without endangering the singular importance of this activity in terms of long term savings. The volume of premiums and contributions towards Life products was, in any case, 40% higher than in 2004.

In the non-life segment, the 2006 growth in the volume of premiums (1,2%) was consistent with the decelerating trend of previous years, reflecting a combination of a week market recovery of the Portuguese economy with negative tariff adjustments in some branches due to competition. In this context, the volume of premiums for branches or sub-branches such as Workmen's Compensation, Fire and Other Property Damage and Motor remained basically unchanged in 2006. Clearly resisting this context of stagnation, the Health sub-branch grew, again, by nearly 10%, which clearly demonstrates the growing acceptance of health insurance by the Portuguese population.

Nevertheless, the total Direct Insurance premiums of the Non-Life branches amounted to almost 4,400 million euros in 2006, the highest ever recorded for this segment.

In relation to the Motor branch, besides the fact that overall growth in vehicles insured is not comparable to that of the previous decade (currently around 2% per annum), the volume of premiums has also reflected a reduction in the average premium per vehicle, in turn indissociable from the containment of the claims rate and the natural pressure from market competition.

The near stagnation in the Non Life volume of Direct Insurance premiums was accompanied by an increase in claims costs in 2006, which was almost twice the rate of inflation, and led to an increase in the claims ratio of 2 percentage points (from 63.5% to 65.5%).

However the claims ratio in the Motor branch decreased.

The reduction in the claims ratio of the Motor branch, by almost 3 percentage points, from 70% in 2005 to 68% in 2006, confirms a healthy trend towards balance in the technical operation. The containment of claims costs is the result of structural progress in road safety, generalized restrictions on motoring (specifically the increase in the cost of fuel) and improvements in the efficiency of insurers in settling claims and detecting frauds.

II. Important events

II.1 Legislative and statutory

The year of 2006 was characterised by the publication of a considerable number of legislative diplomas. Due to the importance and impact on the motor insurance branch special relevance is given to the Decree Law

83/2006, of 3 May (claims related to Motor insurance) and to Decree Law 14/2006, of 31 July (insurance and reinsurance mediation)

Decree Law 83/2006, of May 3 - anticipated the transposition of the 5th Motor Directive with regard to the extension of the "procedure of reasonable offer" to claims with material damage which may be settled under the Third Party Motor Liability insurance contract or optional covers relating to own damage suffered by the insured vehicles, provided that the claims result from crash, collision or overturning.

It also established new rules and procedures to be observed by insurance companies, aiming to ensure greater transparency and speed in the Motor claims settlement process.

When the occurrence of an accident is notified, the insurance company is obliged to carry out, within given time periods, a series of steps in the process of settling the claim, specifically in relation to the booking and conclusion of the inspection and the communication of the acceptance or not of liability, the latter being by the presentation of a reasonable proposal of indemnity or a explanatory reply to the request.

Decree Law 14/2006, of July 31 – transposition of the Directive 2002/92/CE, (access to and exercise of insurance mediation activities) into Portuguese legislation.

This diploma also regulates the exercise of all forms of distribution on identical basis, with respect for the principle of the equal treatment of operators, irrespective of their nature, establishing equitable internal and external conditions of competition.

Until the entry into force of this diploma, there were insurance insurance distribution channels that were not subject to the regime of insurance mediation (namely, distribution through the banking channels)

Another important alteration of this new diploma was the increased level of protection for insurance consumers, through the imposition of a greater degree of transparency in the exercise of insurance distribution activities.

II.2 Market Practices

Complementary Agreement to the Direct Claim Settlement Agreement (IDS)

This Complementary Agreement to the Direct Claim Settlement Agreement (IDS), was implemented on May 1, 2007, for the settlement of claims arising out of accidents involving 2 vehicles, resulting in only material damages and whereby a Friendly Accident Statement, has NOT been duly filled in and signed by both intervening persons.

III. Transposition of the 5th Motor Directive

The Decree Law 291/2007, of 21 August, that transposed the 5th Motor Directive (Directive (Directive 2005/14/CE of the European Parliament and of the Council, of 11 May 2005) and introduces measures which aim to improve the protection of victims of motor accidents and, through the involvement of the Motor Guarantee Fund (MGF), to improve the efficacy of the fulfilment of the obligation to take out the insurance will come into force in 20 October.

The diploma establishes a progressive update of the minimum sums insured of the obligatory Motor Third Party liability insurance (at this initial stage, €1,200,000 per accident for bodily injury and €600,000 per accident for material damage; as from 1 December 2009, these sums insured will be increased, respectively, to €2,500,000 and €750,000, reaching the amounts €5,000,000 and €1,000,000 on 1 June 2012 as set out in the Directive).

IV. Motor insurance data

The motor insurance branch represents 45,9% of the total of non-life insurance market and 15,3% of the total market.

	Direct Insurance Premiums			Direct Claims Costs (*)			Direct Claims Ratio (*)	
	2005	2006	Var.	2005	2006	Var.	2005	2006
Total Motor Branch	1.997.380	2.003.450	0,3%	1.393.082	1.358.596	-2,5%	69,8%	67,9%
Third Party Liability	1.365.325	1.353.317	-0,9%	1.097.603	977.619	-10,9%	80,4%	72,2%
Own damages	558.875	573.708	2,7%	289.106	376.209	30,1%	51,7%	65,6%
Goods in transit	112	129	16,0%	18	17	-5,9%	16,2%	13,1%
Passangers	73.068	76.295	4,4%	6.355	4.751	-25,2%	8,7%	6,2%

U: Thousand Euros
(*) Based in figures from a sample of 97% of the market

Direct Claim Settlement Agreement (IDS)

The number of claims settled during 2006 within the direct claim settlement agreement, ascended to 166.050, an increase of 7.9% in comparison to the previous year.

Sweden

I. Economic market developments in 2006

I.1 Motor insurance market in 2006

Note: 1 Euro = 9.25 SEK

I.1.1 Number of vehicules

The number of passenger cars in Sweden rose by 1.2% in 2006 and the number of goods vehicles, both heavy and light, by 4.0%. The total number of four-wheeled vehicles in use amounted to 4,694,485, except tractors, corresponding to 0.52 vehicles per capita.

Number of four-wheeled vehicles 2006:
Passengers

Passenger cars 4,202,463 (+ 1.2%)

Lorries 479,794 (+ 4.0%)

Buses 12,228 (+ 1.2%)

Tractors 326,681 (- 0.1%)

I.1.2 Third-party liability

Premium income for third-party liability increased by 0.3% in 2006 to SEK 10,916 (EUR 1,180m) and the number of third-party liability claims reported decreased by 0.1%. Since 1990 the total number of claims has decreased by 8.4% (408,631 claims were reported in 1990 and 374,262 in 2006). Total claims costs in 2006 went down 6.5% in the previous year, to SEK 4,896m (EUR 529m).

I.1.3 Road-accidents

Road-accident deaths in 2006 amounted to 378, down 0.9% compared with 2005 figures. The number of injuries decreased by 11.4% to 36,152. Compared with 1990 figures, deaths have dropped by 52.0% (787 in 1990), while injuries have risen by 1.9% (35,489 injuries in 1990). (There has been a drop regarding injuries with more 10,000 in 4 years, why we are uncertain if receiving correct figures from the member companies).

I.1.4 Motor insurance

The premium income for motor insurance increased by 1.4% in 2006 to SEK 12,012 (EUR 1,299m). During the year, claims costs for motor insurance decreased by 0.6% to SEK 7,318m (EUR 791m).

I.1.5 Theft-claims

The total number of theft claims in 2006 (for all vehicles) dropped by 21.1% to 80,645.

No. of theft claims, 1990-2006

Year	Number of claims
1990	158,712
1991	146,857
1992	135,690
1993	120,620
1994	110,668
1995	118,776
1996	127,440
1997	144,240
1998	144,413
1999	144,609
2000	144,498
2001	132,139
2002	133,143
2003	124,577
2004	115,633
2005	102,210
2006	80,645

I.2 Trends during the first half of 2007

The number of third-party liability claims reported in the first half of 2007 amounted to approx. 190,328 which is 1.2 per cent lower compared with the corresponding period last year.

The number of deaths decreased to 166 in the first half of 2007 (from 197 in 2006) and the number of injuries also decreased, from 17,428 to 16,561 according to figures issued by the insurance companies.

The number of theft claims has decreased the first half of 2007. Figures for this first half of 2007 are 8,1% lower than for the same period last year (39,362 to 36,169).

II. Important events during the year

II.1 Legislative and statutory

Regarding the legislative procedure the most efforts have been put down on the implementation of the fifth motor insurance directive. The amount of 300 million SEK (32 Million Euro) as a maximum cover in one accident is kept in the legislation. The directive came into force by August 2007 in Sweden.

II.2 Market practices

The Market structure is very much unchanged. Four big players are dominant in the private lines, approximately 90 % market share, although there are 62 companies which hold a license. But there are now two smaller players which during the last few years have gained market share and together exceed 5 %. The previously mentioned two are probably competitors with a stamina that gradually can change the current market structure slightly. A new initiative on internet marketing is launched during 2007. After keeping away from Non-Life products almost a decade a couple of Banks have once again went into the Banc-assurance concept. The results are not yet observable.

In the business lines the concentration is even bigger. Three players hold a market share of 95 %. But a competitor that left the business field five years ago has now returned.

The profitability level is still satisfactory. The Total Combined Ratio for MTPL plus Casco is well under 90 % and Claims Ratio close to 70 %. Three years in a row have produced good results and 2007 seems to be another year with high profitability. Earlier such an excellent business cycle has lead to market warfare. Such conditions have not yet come about. There are signs of some discounts and the contracts now cover more events. You could also envisage a more liberal claims settlement. For newcomers to the market, young drivers, and newcomers to a specific company there are introductory low-price offers. The propensity to favour a customer in various ways who cover his/her entire need for insurance policies in one company is increasing. The Market leader LF Group, which is a mutual, pay bonuses to their customers which vary due to the results of each region.

The distribution network for insurance policies is since many years dominated by selling points at the car dealers shops who act as agents for the companies. This procedure is very effective as it at the same time take care of the registration of the vehicle with databases at the National Road Administration. These procedures are in real-time, on-line. It is evidently one of the main factors why the rate of un-insured driving in Sweden is at such a low rate (0,90 %) despite entirely relying on an administrative procedure.

The existing IT-network between the Insurance Industry and the National Road Administration is also used offering prices over the internet. There is an assumption that there are approximately 7,5 million requests for offers over the internet by customers per year. The yearly increase is roughly 20 %.

The pricing model generally used, relies on both data gathered from the customer which are stored in in-house databases and on records obtainable in public databases, mostly from the National Road Administration. Data capture from public records, debt collectors and the like are considered more reliable than data supplied by the customer.

Claims settlement and loss prevention

As mentioned above the claims ratios are slightly decreasing and very favourable compared to historic data. The increased prices on gasoline means fewer miles driven in the private lines while the booming economy leads to more miles driven in the business sector.

Loss prevention activities are mostly prevalent in the business portfolio. Besides the focus on using safety belts during bus rides the concentration is mainly on how to avoid drunk driving for lorry drivers and to avoid accidents caused by driving when exhausted, particularly during night hours. As a lot of international long distance traffic follows directly after ferry-boat voyages attention is focused on checking drivers when driving off the ferry-boats. The co-operation between the long distance haulers, their trade association and the insurers has developed rapidly over the last five years and works smoothly. There are a lot of new alco-lock devices installed in trucks. These installations are of course mainly for loss prevention purposes but are also used as a feature pointing at well developed quality systems in the marketing. The two domestic manufacturers of trucks Volvo and Scania, co-operate substantially in the field of loss prevention. Anti theft devices, like immobilizers are now part of the standard equipment.

In the field of private lines one of the big four, Folksam, has a world-wide reputation for their programs for road-safety. They take part in and contribute to many international bodies in the field of road-safety. Their effort has over many years been directed at using their extensive databases containing claims-statistics to point out which cars are safe and why. Their contribution to raise the standard for safe rides for children are also much appreciated.

The shortage of repair shop capacity has turned into a more satisfactory situation, both in private lines and in the business sector. Young students are now attracted by the curriculum and gradually vocational schools provide repairs shops with a new generation of qualified mechanics and tinsmiths. During 2007 the co-operation between the Insurance Sector and the Repair Shop Industry has developed into a joint project how tot safeguard a good quality in order to repair new vehicles, especially in the upper segments, which are constructed with technologically advanced methods.

The close tie between the car dealer and the repair shop, to a large extent part of the same firm, existing since decades in Sweden still prevails but changes can be seen. The deregulation, block exemption, has meant that several big dealers take up several brands, mainly in the big cities. This tendency was evident in a small scale 2006 but has no doubt increased during 2007.

The number of imported cars, mainly from Germany, will increase 2007 but is on average smaller than over the last decade. The opening up of the borders has meant a single market which has put a pressure on the price level for used car domestically. The fluctuations now are mainly geared by "tax- and other rules arbitration" in neighbouring countries, first of all Germany.

The number of uninsured cars is historically at the lowest number ever since the existing system to combat uninsured driving was launched in 1978. The figures are published every month. Now it is 0,90 % on average and hence lower some months. The rate of uninsured cars is available per day by matching the figures of the Insurance Industry with the number of registered cars by the National Road Administration.

III. Foreseeable future developments

During 2006 Sweden had a change in the political side in the government for the first time in twelve years. The new coalition

with four middle and right winged parties have started up with lot of changes in order to reduce sick leaves and unemployment.

It is stated that the transport sector should carry it´s own costs. A governmental investigation has been set up in order to find a way where the insurance industry shall carry more or less all costs regarding personal injuries in traffic. The investigation shall be presented in the spring 2008. In the meantime it has been decided on a 32 pro cent tax on the MTPL-insurance. The tax came into force from this summer.

In order to mitigate the traffic in Stockholm the government has decided to tax the cars that enters or leaves the city of Stockholm. However, an effect is that more motorcycles (especially four wheeled Mc´s) are used and another effect is that more environmental sound cars is sold and used since both groups go free of the congestion charge.

In order to receive free market on spare parts the insurance industry have taken part – together with ECAR - in meetings with representatives from the new government in order to influence them to change the old governments position in this question. No decision has been taken yet within the new government.

Slovakia

I. Market developments in 2006

I.1 Economic environment

- gross domestic product in 2006 = SKK 949 bn., 2006/2005 index = 108.3
- inflation rate in 2006 = 4.5%, based on a year-to-year comparison, it represents an increase of 1.8 percentage points,
- decrease in the rate of unemployment – in 2006 = 13.3 %, compared to the year 2005 the rate dropped by 1.9 percentage points,

I.2 Insurance market

- gross insurance premiums written for 2006 = SKK 53,757 mil., compared to the 2005 it represents increase in 3.79 %,
- ratio life/non-life insurance: 47.4 % = premiums written in life insurance (year-to-year comparison = 5 percentage points),
- share of the premiums in the gross domestic products – in 2006 = 3.29 %,
- total net profit of insurance companies in 2006 = SKK 4,352,427 thousand,
- important note: As a result of the introduction of International Accounting Standards (IAS) in insurance companies' accounting systems and also due to the implementation of International Financial Reporting Standards (IFRS), the formerly used premiums written indicator became useless for purposes of comparisons.

II. Important events during the year

II.1 MTPL – amendment of existing Act

Pursuant to requirements of reinsurers there was a proposal to amend the Act No. 381/2001 Coll. on compulsory contractual motor third party liability insurance and introduce a new exclusion related to war events and terrorist attacks. The exclusion is only related to those damages resulting from the terrorist attack or war event directly related to the motor vehicle operation. The amendment of the act also made a change for the policyholder in order not to change the insurer during the insurance period in a way that he would not pay premium or the premium installment. According to the law in such a case a policyholder is obliged to get insured again by the same insurer until the end of insurance period concluded in an insurance contract. The amended law hinders uncontrolled migration of the policyholders during the insurance period. Moreover its aim is to decrease the number of claims for uninsured vehicles from the insurance guarantee fund administrated by the Slovak Insurers' Bureau. At the same time sanctions for uninsured vehicles were adjusted in a significant way.

II.2 Market practices

The Slovakians experience new products and sales methods such as:

- insurance of used cars with limited reimbursement offered by some insurers
- MTPL with deductible
- new bussiness via new electronical media

III. Foreseeable future developments

III.1 Development of crime and fraud prevention policies

Regarding the development of crime and fraud prevention policies, a register of car accident administrated and managed by Slovak Insurers Bureau (SIB) has been introduce at the beginning of 2007. It allows exchange of information between state traffic police and SIB

III.2 The transposition of the 5th Motor Directive

The transposition of particular clauses of Directive – by amendment of existing law – came in force on 1st March 2007

Insurance cover limits in existing law 381/2001 (last amendment came into the force on 1st April 2007) are:

- from the 1st January 2009:

- minimum limit for bodily injury 2,5 mil EURO for an accident
- minimum limit for property damage 0,5 mil. EURO for an accident

- from the 1st January 2012:

- minimum limit for bodily injury 5 mil EURO for an accident
- minimum limit for property damage 1 mil. EURO for an accident

Slovenia

I. Market developments in 2006

I.1 Motor Third Party Liability insurance

Motor third party liability insurance ranks third among all insurance classes and generated gross premium written of SIT 74.5 billion (EUR 310.8 million) in the year 2006. This amount increased by 4.6% from the year 2005. The amount of MTPL insurance claims paid decreased by 1.4% to SIT 40.3 billion (EUR 168.0 million), so the claims ratio for the year 2006 was 54.1%, better than in 2005.

I.2 Motor vehicles casco

In 2006, insurance companies collected SIT 40 bn (EUR 166.8 million) in motor vehicle casco premium written. It is 14.4% more than the previous year, thus better than a year before. In 2006, insurance companies paid out SIT 30.3 billion (EUR 126.5 million) in claims, which was an increase of 18% from 2005. The claims ratio worsened to 75.8 %.

II. Important events during the year, in the following fields:

II.1 Legislative and statutory

With The Act Amending the Compulsory Insurance in Traffic Act, which entered into force on 7/4/2006 the obligation of motor insurance companies to offer the possibility for consumers to conclude the MTPL insurance contracts via Internet was introduced as a consequence of Slovene's Government e-Administration strategy, which among others resulted in introducing e-service of extension of certificate of registration for motor vehicles.

The 5th Motor Insurance Directive was transposed into Slovene legislation by The Act Amending the Compulsory Insurance in Traffic Act (MTPL Insurance included), which was passed on 12/6/2007 and entered into force on 27/6/2007. See more – III.3 bellow.

II.2 Market practices

In Slovenia, motor insurance is distributed mainly by tied (and wage-earning) agents, while free agents and insurance brokers are not so important and even less are other distribution channels: insurance companies have started to offer MTPL insurance via Internet due to legal obligation, which had to be fulfilled by 1/3/2007, as well as via telephone and banks on the basis of business alliances between banks and insurance companies.

Some bigger car dealers also distribute motor insurance, especially casco on the basis of different arrangements with insurance companies.

No foreign insurer has yet decided to distribute motor insurance by way of FOS in Slovenia.

The prices of spare parts and vehicle repair costs are increasing constantly in Slovenia therefore insurance companies regularly closely monitor and analyse the situation also by comparing the situation in other EU member states.

Insurance Companies supported together with governmental institutions the ECAR's efforts for a Repairs Clause.

II.3 Developments in Motor Liability reinsurance

Insurance companies did not report on any special problems regarding motor liability reinsurance – they just had to adjust their reinsurance cover to higher MTPL minimum limits planned for 2007.

III. Foreseeable future developments

III.1 Single market

No major changes in motor insurance in Slovenia were noticed as a consequence of single market and no new players entered the motor insurance market.

III.2 Development of crime and fraud prevention policies

Crime prevention policies are run mainly within the member companies but in the future it is planned that the Slovenian Insurance Association will take more active role and co-ordination, and the co-operation of its member companies will even strengthen. More intensive work of the Association is expected with final setting up of the car insurance register (CIR) within the Slovenian Insurance Association planned by the end of 2007.

III.3 The transposition of the 5th Motor Directive

The 5th Motor Insurance Directive was transposed into Slovene legislation by The Act Amending the Compulsory Insurance in Traffic Act (MTPL Insurance included), which was passed on 12/6/2007 and entered into force on 27/6/2007. No major difficulties were noticed during the process of preparing the amendments of the existing legislation and the suggestions of insurance industry regarding the minimum limits were adopted by the legislator.

Regarding the minimum amounts, a transitional period of implementation is forcast. Full limits according to the 5th Motor Insurance Directive will be implemented in Slovenia on 1/1/2012. Concerning bodily injury the minimum amounts, are set per accident

Minimum values of sums insured in slovenia:

Per accident, regardless of the number of injured parties

a) With effect from 27/6/2007 until 31/12/2008:

- Personal injury EUR 2,500,000
- Damage to property EUR 500,000

b) With effect from 1/1/2009 until 31/12/2011:

- Personal injury EUR 3,700,000
- Damage to property EUR 750,000

c) With effect from 1/1/2012:

- Personal injury EUR 5,000,000
- Damage to property EUR 1,000,000

III.4 Consequences of the entry of 10 new Member States into the European Union

At the beginning of 2007, euro was introduced in Slovenia. In 2006 intensive activities for adoption of the euro were run on all levels of public life. Insurance industry has been preparing for this change during 2006 intensively and on 1 January 2007 Slovenia successfully joined the eurozone. Insurance companies have not faced any major problem in this respect.

The handling procedures of 4th Motor Insurance Directive claims are running well: in Slovenia, insurance companies are mostly acting as claims representatives of insurers from other member states and a large majority of claims are handled through claims representatives. Only few claims were handled by the Slovenian Insurance Association in its capacity of compensation body from 1st May 2004 till today. Slovene information centre established within the Slovenian Insurance Association maintains the database on compulsory MTPL insurance and can be reached by interested parties directly through web site: http://www.zav-zdruzenje.si

CEA-Statistics n°32 is available on the CEA's website : www.cea.eu

Data compilation, processing and comments

Catherine Goislot & Luc Stevens (CEA)

goislot@cea.eu, stevens@cea.eu

Graphic design

Morris-Chapman

Corentin Pollet (CEA)

CEA

Insurers of Europe

CEA aisbl
Square de Meeûs, 29
B-1000 BRUSSELS
Tel.: +32 2 547 58 11
Fax : +32 2 547 58 19