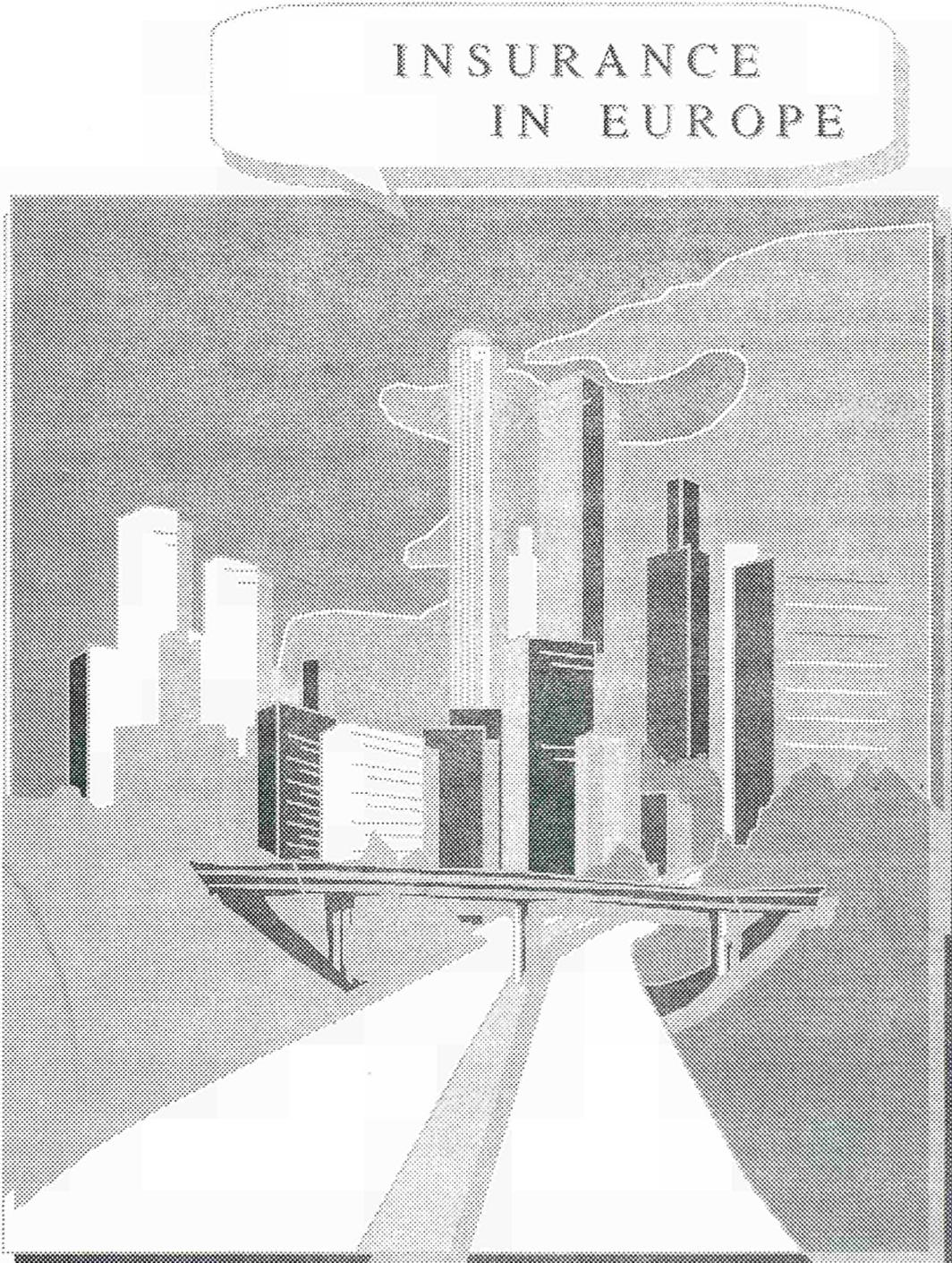


# Handel, Dienstleistungen und Verkehr Distributive trade, services and transport Commerce, services et transports

Supplement 1 □ 1996



## INSURANCE IN EUROPE

OFICINA ESTADÍSTICA DE LAS COMUNIDADES EUROPEAS  
DE EUROPÆISKE FÆLLESSKABERS STATISTISKE KONTOR  
STATISTISCHES AMT DER EUROPÄISCHEN GEMEINSCHAFTEN  
ΣΤΑΤΙΣΤΙΚΗ ΥΠΗΡΕΣΙΑ ΤΩΝ ΕΥΡΩΠΑΪΚΩΝ ΚΟΙΝΟΤΗΤΩΝ  
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## INTRODUCTION

**E**urostat has been working for a few years on the development of a European statistical system on insurance enterprises. The elaboration of a first comprehensive publication on life, non-life and specialist reinsurance enterprises was undertaken in this line. Eurostat will edit this publication in spring 1996.

The information provided in this publication mainly refers to the accounting years 1992 and 1993. It presents the situation of the European insurance markets prior to the opening-up of the European single market.

The comprehensive publication will include 18 chapters, one for each of the EEA countries as well as for Switzerland. Additionally, it will provide a comparative analysis of these markets together with some comments on the new legal environment and some perspectives on the Eastern European insurance markets.

A first statistical document was issued in November 1995 giving an initial idea of the publication to come and assessing the markets of Belgium, Spain and Luxembourg. The present paper reviews the markets of Germany, Ireland and Switzerland.

The structure and contents of the country chapters are not fully harmonised as this publication is based on the data available in the contributing countries only. An increased harmonisation is expected in the forthcoming years when the EU Directives and also the legal base for insurance statistics of the EU will come into force.

Eurostat shall continue publishing insurance data in the future, on a yearly basis. These publications will however have a different structure with more data and as far as the text is concerned explanatory notes only.

*January 1996*

## General remarks

1 billion (bn) signifies 1 000 million (10<sup>9</sup>) throughout the publication.

the sign - stands for "not existing/available" throughout the publication.

the country codes, currency codes and ECU exchange rates are given for information in the table below.

ECU exchange rates (1991,1992,1993)				
Country	Currency code	ECU (1)		
		1991	1992	1993
B	BFR	42.22	41.59	40.47
DK	DKR	7.91	7.81	7.59
D	DM	2.05	2.02	1.94
GR	DR	225.22	247.03	268.57
E	PTA	128.47	132.53	149.12
F	FF	6.97	6.85	6.63
IRL	IRL	0.77	0.76	0.8
I	LIT	1 533.23	1 595.51	1841.23
L	LFR	42.22	41.59	40.47
NL	HFL	2.31	2.27	2.18
P	ESC	178.61	174.71	188.37
UK	UKL	0.7	0.74	0.78
A	ÖS	14.43	14.22	13.62
SF	FMK	5	5.81	6.7
IS	IKR	73.28	74.66	79.25
N	NKR	8.02	8.04	8.3
S	SKR	7.48	7.53	9.12
CH	SFR	1.77	1.82	1.73
USA	USD	1.24	1.3	1.17
JAP	YEN	166.49	164.22	130.15

1. Annual average.

Source: Eurostat.

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**IRELAND**

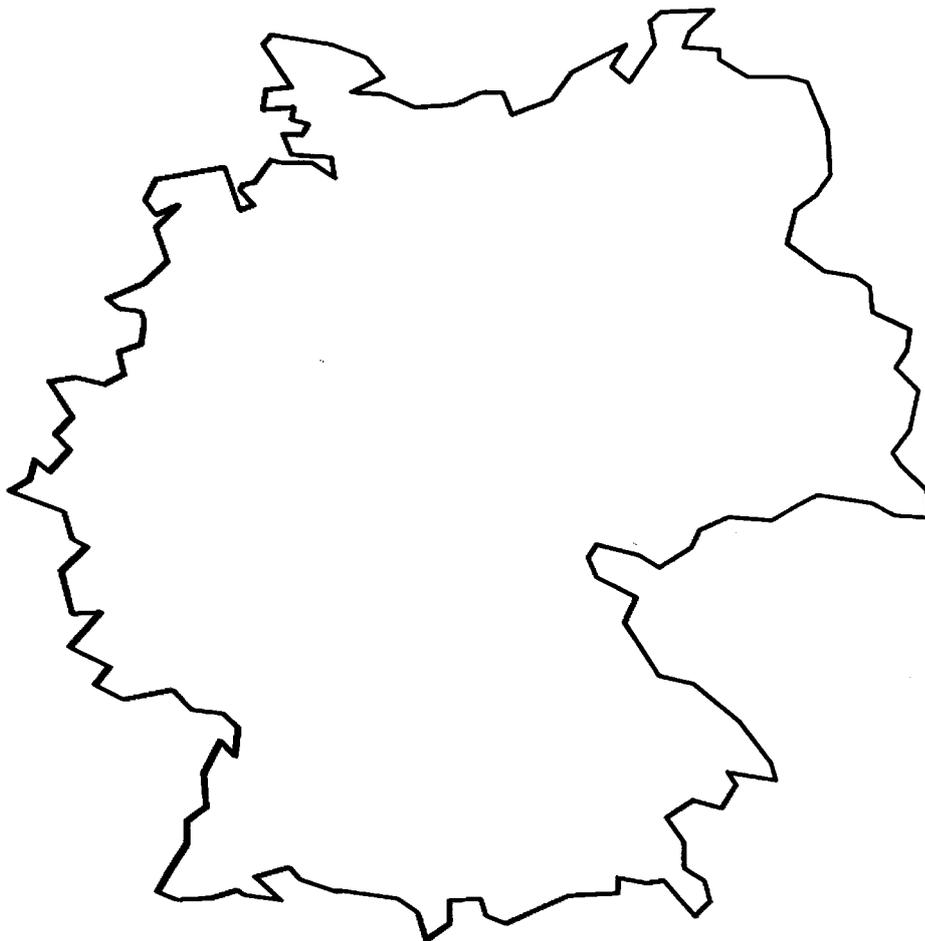
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# INSURANCE IN GERMANY



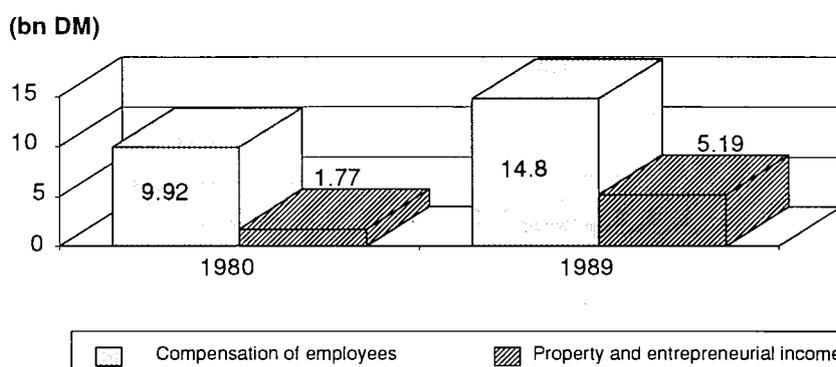
## 1. Introduction

To ensure uniformity of approach, the development of the insurance industry within the whole economy was observed on the basis of national accounts data (for the 1980-89 period).

Taking gross value added at market prices as a measure of a sector's economic performance, the performance of the insurance industry increased by over 85% between 1980 and 1989 from DM 15 billion to 28 billion. As the performance of the whole economy over the same period grew less sharply - a little over 50% - the insurance industry increased its share on the value added of the whole economy from 1.1 to 1.3%.

In measuring the economic performance of the insurance industry, the flows between policyholders and insurance enterprises were examined within the

**Figure D1: Income generated by insurance enterprises (1980,1989)**

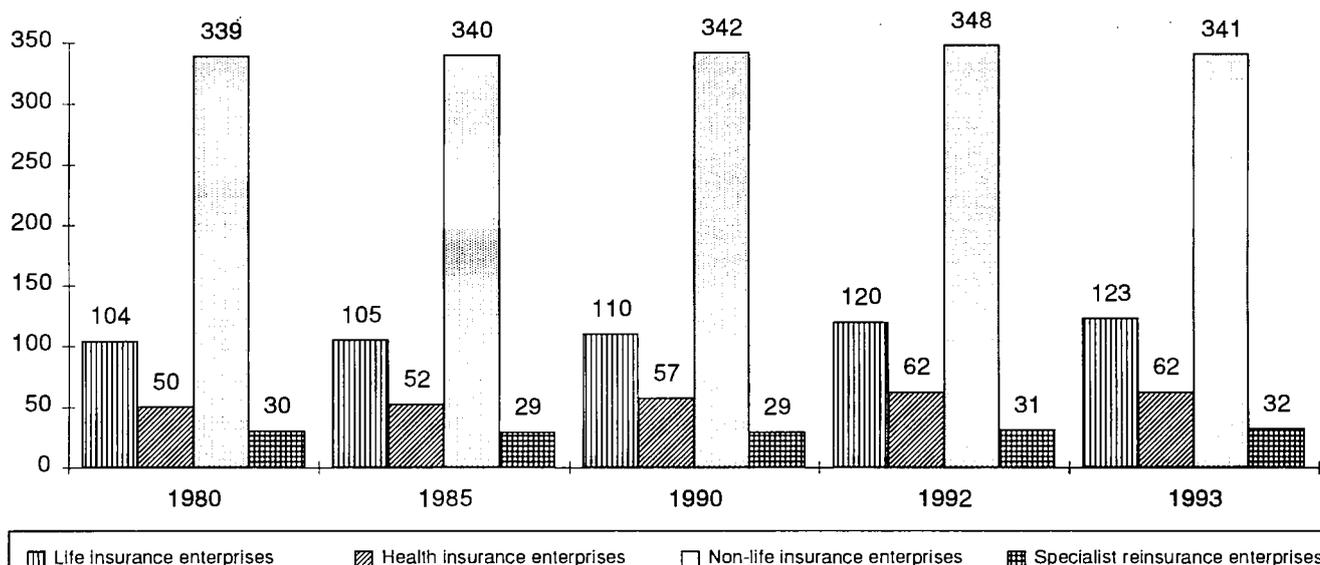


Source: Bundesaufsichtsamt für das Versicherungswesen.

framework of national accounts. Insurance services are remunerated by a service payment, from which consumption of goods and services (intermediate consumption) must be deducted. This payment forms part of the total premiums paid by policyholders to insurance enterprises.

The income accruing to the factors of production - labour (compensation of employees) and capital (property and entrepreneurial income) - is paid out of gross value added after deduction of fixed capital consumption (depreciation) and taxes linked to production. The resulting net value added rose by about 70% between 1980 and 1989 from

**Figure D2: Number of enterprises (1980-93)**



Source: Bundesaufsichtsamt für das Versicherungswesen.

# Germany

**Table D1: Legal form of insurance enterprises (1993)**

	Life insurance enterprises	Health insurance enterprises	Non-life insurance enterprises	Specialist reinsurance enterprises	Total
Limited companies	81	25	174	29	309
Mutual	25	35	72	1	133
Public institutions	11	1	25	1	38
Other legal forms	0	0	0	1	1
<b>Domestic insurance enterprises</b>	<b>117</b>	<b>61</b>	<b>271</b>	<b>32</b>	<b>481</b>
Branches of foreign enterprises	6	1	70	-	77
(of which from EU countries)	(2)	(1)	(59)	-	(62)
<b>Total insurance enterprises</b>	<b>123</b>	<b>62</b>	<b>341</b>	<b>32</b>	<b>558</b>

Source: Bundesaufsichtsamt für das Versicherungswesen.

DM 11.7 billion to 20 billion. While compensation of employees increased by about 50%, the property and entrepreneurial income of insurance enterprises grew more sharply by about 195%.

In 1993, 2 329 insurance enterprises were operating in the Federal Republic of Germany. Of these, 1 508 were mutual insurance societies of only little economic importance (total premium income in 1992: only DM 80.7 million) and 59 were

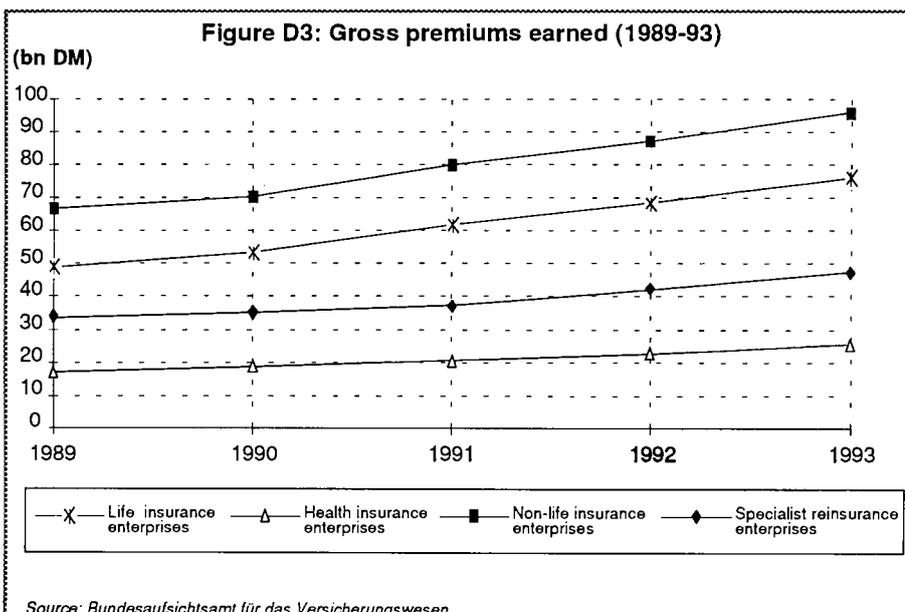
not in operation. Of the remaining 762, some 145 were pension funds (gross premiums earned in 1993: DM 3 423.9 million) and 59 were death benefit funds (gross premiums earned in 1993: DM 101.8 million), which are not covered by this study. The remaining 558 enterprises break down by category as shown in the figure D2.

Between 1980 and 1990, the number of insurance enterprises rose only slightly.

However, between 1990 and 1992, there was a distinct increase, particularly in life and health insurance. The majority of new enterprises were set up within existing insurance groups. Broadening one's range of services is a common way of forestalling the drift of customers to other companies. Specialist enterprises were also set up to handle special products or serve new groups of customers. German unification, however, played no part in the number of new enterprises set up.

The breakdown by legal form and category in 1993 is shown in table D1.

Among branches of foreign insurance enterprises from non-EU countries, there were four life insurance enterprises and eight non-life enterprises from Switzerland and three non-life enterprises from the United States of America (2) and Japan. Of the branches of EU firms, the two life insurance enterprises and 29 of the non-life enterprises were from the United Kingdom. The four non-life enterprises from Sweden (2), Finland and Austria were classified as EU enterprises.



**Table D2: Top 5 life, health, non-life insurance and specialist reinsurance enterprises (1993)**

Names of the enterprises	Gross premiums earned (Mio DM)	Growth (%) 1992-93	Market share (%)
<b>Life insurance enterprises</b>			
1) Allianz Leben AG	9 761	14.00	12.84
2) Hamburg Mannheimer AG	4 430	7.00	5.83
3) Volksfürsorge Deutsche Leben AG	3 446	5.00	4.53
4) R+V Leben AG	3 021	12.30	3.98
5) Victoria Leben AG	2 842	9.80	3.74
Total of life insurance	75 989	11.20	100.00
<b>Health insurance enterprises</b>			
1) Deutsche Kranken AG	4 129	11.80	16.06
2) Vereinte Kranken AG	3 727	11.00	14.49
3) Debeka Kranken VVaG	2 858	18.40	11.11
4) Signal Kranken VVaG	1 391	12.50	5.41
5) Continentale Kranken VVaG	1 384	8.70	5.38
Total of health insurance	25 713	12.90	100.00
<b>Non-life insurance enterprises</b>			
1) Allianz AG	9 055	7.80	9.47
2) R+V Allgemeine AG	3 456	9.70	3.61
3) Gerling-Konzern Allgemeine AG	3 344	9.90	3.50
4) Colonia AG	2 955	4.50	3.09
5) Gothaer Versicherungsbank VVaG	2 702	6.40	2.82
Total of non-life insurance	95 637	9.80	100.00
<b>Specialist reinsurance enterprises</b>			
1) Münchener Rück AG	15 869	10.90	33.61
2) Allianz Holding AG	7 749	6.10	16.41
3) Frankona Rück AG	3 310	33.20	7.01
4) Kölnische Rück AG	3 157	17.20	6.69
5) Gerling-Konzern Globale Rück AG	2 903	11.40	6.15
Total of specialist reinsurance	47 221	12.50	100.00

AG = Shareholding enterprise  
VVAG = Mutual

Source: Bundesaufsichtsamt für das Versicherungswesen.

The degree of concentration in the individual insurance categories, measured by gross premiums earned, varies considerably but is generally high. In 1993, the top five specialist reinsurers shared nearly 70% of the market, of which 33.6% went to the market leader,

and a further 16.4% to the second-largest firm. In the health insurance class, over half of gross premiums (52.5%) were earned by the five largest enterprises. The level of concentration was lower in life insurance (30.8%) and even more so in the non-life category (22.5%).

## 2. Profit and loss account

The trend in gross premiums earned in the individual categories is shown in figure D3.

In contrast to the trend in the number of insurance enterprises, there was a sharp increase in the growth rate of premium income after 1990, the year of German unification. This particularly affected life and non-life insurance enterprises. In 1991 alone, the first full financial year after unification, the premium income of life insurance companies rose by 15.7% and that of non-life enterprises by 13.5%. The growth rates for 1992 and 1993 were also higher than in the pre-1990 period. The new *Länder* obviously still have some ground to make up.

The largest share of total gross premiums fell to limited companies (71.9%) and mutual societies (17.9%). In contrast, public institutions (7.6%) and branches of foreign enterprises (2.5%) had a disproportionately small share.

Following the increase in claims affecting various classes of insurance in 1990 and 1991 (in 1990 owing to storm and hurricane damages, in 1991 owing to a rise in motor vehicle and fire and other damage to property), gross claims incurred in 1992 and 1993 remained at the previous year's high levels due to the continuing increase in property crimes, the growing number of natural disasters and an increase in credit and guarantee claims (total gross claims ratios for non-life insurance enterprises: 1990: 75.6%, 1991: 75.1%, 1992: 76.5%, 1993: 76.2%).

# Germany

The distinct decrease in the gross deficit on the technical account between 1992 and 1993 is attributable to a recovery in operating expenses rather than the slight decrease in claims. The high level of claims obviously affected reinsurers in 1992 and 1993, among whom the net deficit was much higher than the corresponding gross profit, particularly in 1993.

The increase in claims among non-life insurance enterprises as a result of storm damages in 1990 also led to a sharp increase in claims among reinsurers in comparison with the previous years (1990: 78.3%, 1991: 74%, 1993: 73.5%). In subsequent years, though claims resulting from natural disasters decreased, total claims remained at a comparatively higher level owing to property crime.

The distinctly higher investment earnings in comparison with non-life enterprises are attributable firstly to life reinsurance, in which, as in direct life insurance, there are considerable life insurance provisions. Secondly, many reinsurance enterprises operate as holding companies with considerable investments in affiliates and participating interests.

In life insurance, particular attention should be drawn to investment income, which totalled over 50% of premiums earned and is an important source of surpluses. It should also be noted that this is the sector average. In certain life insurance enterprises investment income was higher than premiums earned.

The operating expenses of life insurance companies can be divided into acquisition costs and administrative expenses. The

**Table D3: Profit and loss account of non-life and specialist reinsurance enterprises (1993)**

	Non-life insurance		Specialist reinsurance	
	(Mio DM)	%	(Mio DM)	%
<b>Technical part / gross</b>				
Direct premiums earned	91 330	95.50 <sup>1</sup>	-	-
accepted	4 307	4.50 <sup>1</sup>	47 221	100.00 <sup>1</sup>
Premiums earned	95 637	100.00	47 221	100.00
Claims incurred	72 855	76.18 <sup>1</sup>	34 689	73.46 <sup>1</sup>
Operating expenses	22 751	23.79 <sup>1</sup>	13 157	27.86 <sup>1</sup>
Balance of the technical account	-862	-0.90 <sup>1</sup>	-3 616	-7.66 <sup>1</sup>
<b>Technical part/ Reinsurance share</b>				
of Gross premiums earned	28 389	100.00	12 266	100.00
Reinsurance balance	-285	-1.00 <sup>2</sup>	692	5.64 <sup>2</sup>
<b>Non technical part</b>				
Investment income (4)	9 329	13.87 <sup>3</sup>	7 134	20.41 <sup>3</sup>
Profit or loss for the financial year (before tax)	3 622	5.39 <sup>3</sup>	695	1.99 <sup>3</sup>

1. Percentage of gross premiums earned.

2. Percentage of reinsurer's share of gross premiums earned.

3. Percentage of net premiums earned.

4. Including investment charges.

Source: *Bundesaufsichtsamt für das Versicherungswesen.*

first underwent a distinct increase, particularly in 1990 and 1991 (1989: 16%, 1991: 19.9%). This increase was caused by the establishment of sales organizations and considerable commission expenditure in connection with the acquisition of business in the new *Länder* as a result of German unification. Acquisition costs subsequently fell back sharply (1993: 15.3%). In recent years, the cost ratio has dropped slightly.

Nearly 30% of premium income was paid back to policyholders in the form of bonuses and rebates, a consequence of prudent actuarial assumptions adopted in the calculation of premiums. The profit and loss account does not, however,

show that, in addition to the guaranteed interest rate of 3% or 3.5%, policyholders were credited out of life insurance provisions with a further 2% or 1.5% as a share of the surplus in the form of a bonus, yielding a total of 5%.

Health insurance in Germany operates largely in the same way as life insurance. This means, above all, that investment income is an essential component of the technical result. In order to cover claims, which rise with the age of the policyholders, an insurance provision, called the provision for increasing age, is constituted.

While in 1990 and 1991 gross claims incurred rose faster than the gross premiums, this trend levelled out in 1992

and 1993 (premium growth in 1991: 10.5%, in 1992: 10.3% and in 1993: 12.9%). The drop in the claims ratio since 1991 is therefore due partly to a decline in the growth of claims and partly to an increase in premium growth, at least in 1993. The increase in premiums is due less to new policies than to higher premiums on existing contracts, which also led to a drop in the cost ratio.



### 3. Analysis of the main products

With 42.5% of premiums, motor vehicle insurance is by far the largest class (growth rates for motor vehicle third party liability insurance 1993: 7.8%, 1992: 5.9%; for motor vehicle other classes 1993: 12.6%, 1992: 20.7%). In second place, with a 28.5% share of premiums, comes fire and other damage to property insurance followed by general liability (10.9%) and accident insurance (9.1%).

The profitability of motor vehicle insurance has deteriorated markedly in recent years owing to rising claims. In the motor vehicle liability class, in which premiums were subject to official approval during the

**Table D4: Profit and loss account of life and health insurance enterprises (1993)**

	Life insurance		Health insurance	
	(Mio DM)	%	(Mio DM)	%
<b>Technical part / gross</b>				
Direct premiums earned	75 646	99.55 <sup>1</sup>	25 689	99.91 <sup>1</sup>
Reinsurance premiums accepted	343	0.45 <sup>1</sup>	24	0.09 <sup>1</sup>
Premiums earned	75 989	100.00	25 713	100.00
Investment income (4)	43 156	56.79 <sup>1</sup>	3 945	15.34 <sup>1</sup>
Claims incurred (5)	40 591	53.42 <sup>1</sup>	18 830	73.23 <sup>1</sup>
Change in life insurance provisions	45 834	60.32 <sup>1</sup>	4 725	18.38 <sup>1</sup>
Operating expenses	14 932	19.65 <sup>1</sup>	3 542	13.78 <sup>1</sup>
Bonuses and rebates	22 659	29.82 <sup>1</sup>	2 592	10.08 <sup>1</sup>
Balance of the technical account	3 258	4.29 <sup>1</sup>	942	3.66 <sup>1</sup>
<b>Technical part / Reinsurance share</b>				
of Gross premiums earned	6 201	100.00	645	100.00
Reinsurance balance	-371	-5.98 <sup>2</sup>	-38	-5.89 <sup>2</sup>
<b>Non technical part</b>				
Profit or loss for the financial year	789	1.13 <sup>3</sup>	309	1.23 <sup>3</sup>

1. Percentage of gross premiums earned.
2. Percentage of reinsurer's share of gross premiums earned.
3. Percentage of net premiums earned.
4. Including investment charges.
5. Including surrenders.

Source: Bundesaufsichtsamt für das Versicherungswesen.

period under review, claims rose disproportionately in 1991 and 1992. One reason was the unreliable classification in the new *Länder* following unification. Costs were remarkably low, compared to other classes. The claims situation was even worse in other motor vehicle

insurance. Along with the premiums, the gross claims incurred also rose sharply. In 1993, the claims ratio fell significantly (91.1% in comparison with 96.1% in 1992). The main reason for the steep rise in claims was the increase of car thefts.

**Table D5: Direct non-life insurance business of non-life enterprises (1993)**

	Motor vehicle, third party liability	Motor vehicle, other classes	Fire and other damage to property	General liability
	Mio DM / %	Mio DM / %	Mio DM / %	Mio DM / %
<b>Technical part / gross</b>				
Direct premiums earned (= 100%)	24 192	14 583	26 039	9 940
Claims incurred	93.80	91.10	71.10	65.50
Operating expenses	9.20	20.60	28.20	32.70
<b>Balance of the technical account</b>	<b>-2.80</b>	<b>-11.80</b>	<b>-0.10</b>	<b>1.80</b>

Source: Bundesaufsichtsamt für das Versicherungswesen.

# Germany

Fire and other damage to property insurance was hard hit in 1990 by storms and hurricanes. Since 1991, it has been affected by a number of major industrial fire claims and the sharp rise in crimes against property.

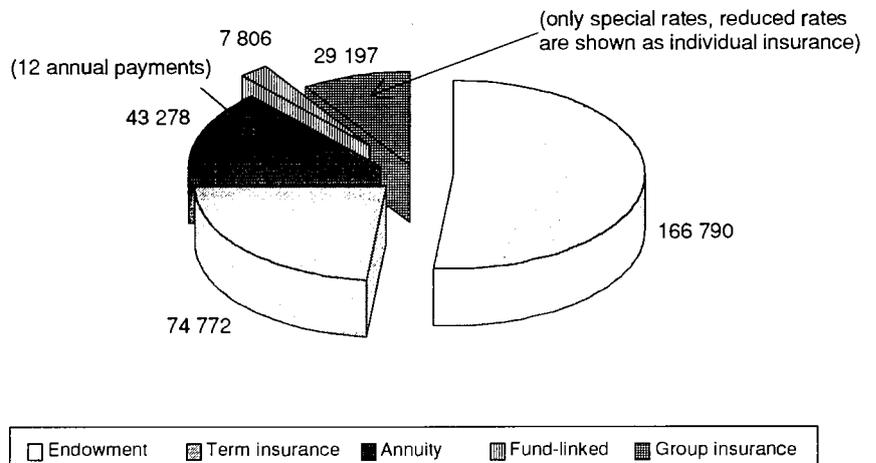
In the accident insurance class (premiums in 1993: DM 8 313 million) the claims ratio (1993:39.1%) was significantly lower than in other classes of insurance. This is partly due to accident insurance with refund. Under this type of policy, part of the premium constitutes savings, which, as in life insurance, are accumulated in an interest-bearing provision. Accident insurance is the only major class of insurance to generate consistently large surpluses.

The figures D4 and D5 show the composition of life insurance at the end of the year and new business in the course of the year 1993, divided into individual and group policies.

As regards the trend of the situation, attention should be drawn to the increase in new business, which totalled 26.6% in 1990 and 29.7% in 1991. These high growth rates were mostly due to new business acquired in the new *Länder*. In subsequent years, the unusually high level of new business observed in 1991 was no longer attained.

The trend in individual products varied greatly. The share of all new business generated by endowment policies fell from 66.7% in 1990 to 51.8% in 1993, while the share attributable to term policies rose from 17.1% to 23.2% over the same period and, of particular significance, that

**Figure D4: Life insurance new business (amount insured) (1993) (Mio DM)**



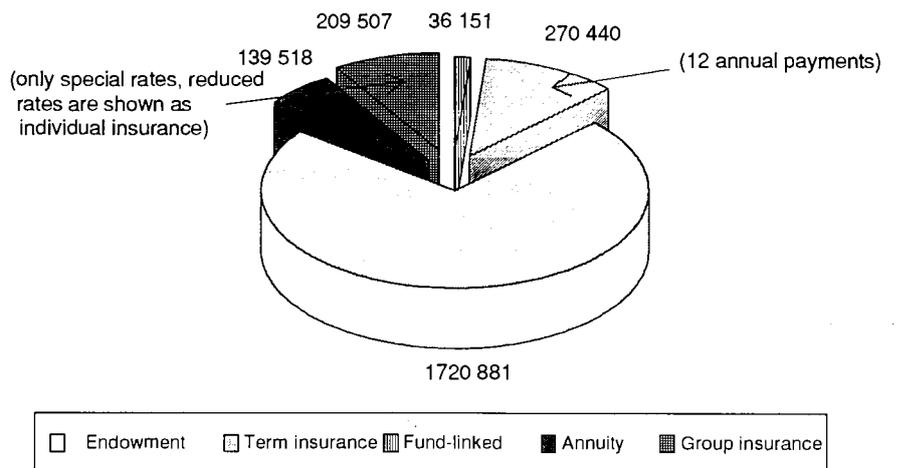
Source: Bundesaufsichtsamt für das Versicherungswesen.

of annuity policies from 3.8% in 1989 to 13.4% in 1993.

In Germany, life insurance is viewed as a means of providing for one's surviving dependents, and especially as an additional means of constituting a private retirement capital. In recent years, many life insurance policies reaching maturity were therefore immediately converted into

annuity policies, and all or a significant proportion of amounts falling due were thus used as single premiums. The rise in term insurance in parallel with the fall in endowment policies can be traced at least in part to the fact that "genuine" new customers increasingly make a distinction between providing for their surviving dependents via life insurance and

**Figure D5: Life insurance policies outstanding at end of year (amount insured) (1993) (Mio DM)**



Source: Bundesaufsichtsamt für das Versicherungswesen.

**Table D6: Reinsurance business of specialist reinsurance enterprises (1993)**

	Fire and other damage to property	Motor vehicle	Life insurance	General liability
	Mio DM /%	Mio DM /%	Mio DM /%	Mio DM /%
<b>Technical part / gross</b>				
Premiums accepted (= 100%)	16 028	11 138	8 111	4 636
Claims incurred	76.40	95.00	37.50	83.00
Operating expenses	29.90	19.50	30.80	32.30
<b>Balance of the technical account</b>	<b>-6.80</b>	<b>-14.70</b>	<b>3.00</b>	<b>-15.30</b>

Source: Bundesaufsichtsamt für das Versicherungswesen.

providing for their retirement via savings or banking products.

Reinsurance activities were predominantly carried out by specialist reinsurance enterprises. Some 91% of reinsurance was accepted by specialist firms. The share of total gross reinsurance premiums accepted by non-life enterprises was only 4.5%, and that accepted by life enterprises was well below 1%.

Among specialist reinsurance enterprises, 34% of gross premiums were generated by fire and other damage to property insurance, 23.6% by motor vehicle insurance, 17.2% by life insurance and 9.8% by general liability insurance. Gross premiums accepted in these four main classes accounted for 85% of the total.

In the life insurance class, there is a generally small surplus on the technical account. It should be noted that another major expenditure item - change in life insurance provisions - plays an important role in determining the outcome of the technical account.

In motor vehicle insurance the rising claims affecting direct insurers as a result of the growth in property crime also fed

through to reinsurers. In 1993, motor vehicle insurance for the first time became a big loss-maker for the insurance technical account.

Fire and other damage to property insurance was influenced by several factors. In 1993, there was an improvement in pure fire insurance due to the lack of major claims and premium increases, particularly in industrial fire business. On the other hand, there was an increase in claims due to natural disasters (1990: storm of the century in Europe; 1992: Hurricane Andrew) and, as in motor vehicle insurance, a rise in property crime.

In general, the gross balance on the insurance technical result, with a deficit of DM 3 616 million or 7.7% of premiums, represented an improvement in comparison with the previous year (1992: deficit of DM 3 724 million or 8.9%). The gross loss was absorbed by investment income, generating a profit for the financial year.



#### 4. Internationalization

The table D7 shows the amount of direct business written abroad and reinsurance accepted from foreign insurers, as well as the percentage of total business generated by such activities.

**Table D7: Gross premiums earned from international business (1993)**

	Mio DM	% <sup>1</sup>
<b>Life insurance enterprises</b>	<b>105</b>	<b>0.14</b>
<b>Health insurance enterprises</b>	<b>27</b>	<b>0.10</b>
<b>Non-life insurance enterprises</b>	<b>1 896</b>	<b>22.03</b>
direct	995	1.09
reinsurance accepted	902	20.94
<b>Reinsurance enterprises</b>	<b>16 921</b>	<b>35.83</b>

1. Percentage of total gross premiums earned (domestic and foreign).

Source: Bundesaufsichtsamt für das Versicherungswesen.

# Germany

**Table D8: Number of persons employed (1991, 1993)**

	1991		1993	
	male	female	male	female
<b>Full-time employees</b>	<b>137 878</b>	<b>95 902</b>	<b>138 171</b>	<b>95 892</b>
Office-based staff	81 966	84 120	82 242	82 689
Field sales staff	48 350	5 025	48 341	5 847
Apprentice	7 562	6 757	7 588	7 356
<b>Part-time employees</b>	<b>1 333</b>	<b>18 792</b>	<b>1 254</b>	<b>19 167</b>
Office-based staff	1 320	18 686	1 242	19 016
Field sales staff	13	106	12	151
<b>All categories</b>	<b>139 211</b>	<b>114 694</b>	<b>139 425</b>	<b>115 059</b>
<b>Total</b>	<b>253 905</b>		<b>254 484</b>	

Source: Bundesaufsichtsamt für das Versicherungswesen.

In all classes, direct business written abroad (whether via the freedom of providing services or via branches) was of secondary importance. This applies especially to life and health insurance, in which only three insurance enterprises were operating abroad in 1993. A far greater number of non-life enterprises (48) operated abroad in 1993, but nearly 50% of foreign business was generated by a single firm. However, this does not mean that German insurance firms are not active internationally: they generally prefer to set up a subsidiary in countries in which they do business.

The picture is quite different in the reinsurance field, in which a far greater proportion of business is accepted from foreign insurers. Of the 192 non-life insurers involved in reinsurance business, in 1993, some 58 accepted business from foreign insurers, 15 of which contracted over 50% of their reinsurance business abroad.

The proportion of foreign business was even higher among specialist reinsurers. Some 23 out of a total of 32 specialist reinsurers accepted business from foreign

firms, 8 of which contracted over 50% of their business abroad.

The activities of the branches of foreign enterprises active in Germany are reported in the previous chapters.



## 5. Employment

The figures shown in table D8 refer exclusively to employees, i.e. persons employed by an insurance enterprise under a contract of employment and paid on a regular basis. They do not include self-employed persons

**Figure D6: Persons employed (1993)**

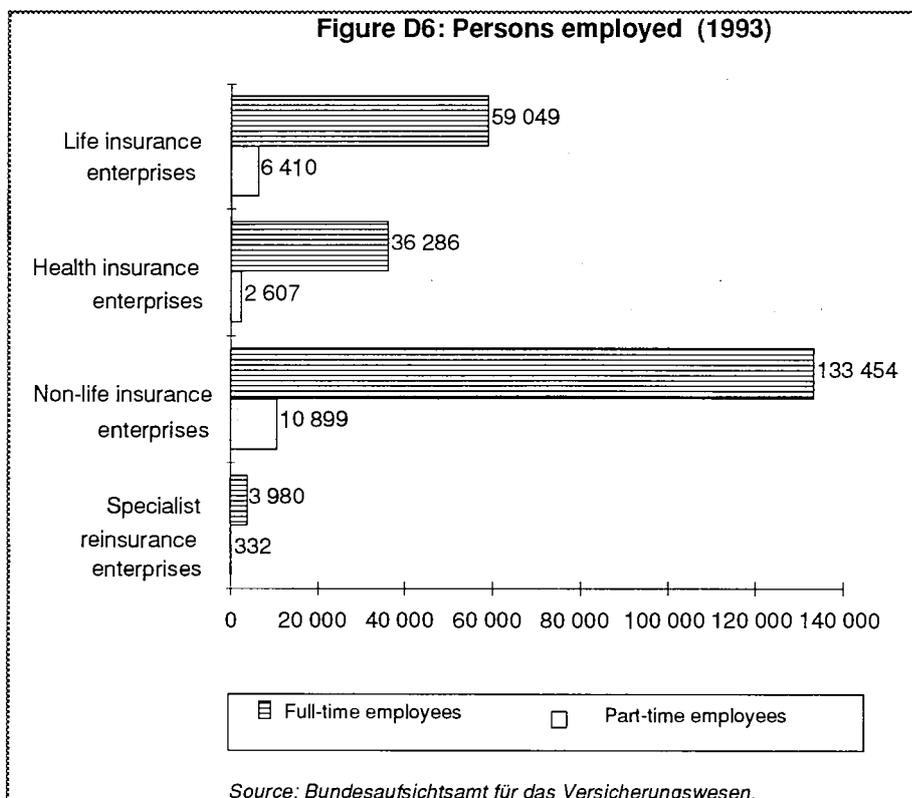


Table D9: Investments (1993)

	Life insurance enterprises	Health insurance enterprises	Non-life insurance enterprises	Specialist reinsurance enterprises
	Mio DM / %	Mio DM / %	Mio DM / %	Mio DM / %
Land and buildings	5.26	6.00	7.53	3.55
Participating interest	2.67	2.82	8.98	22.86
Shares and other variable-yield securities and units in unit trusts	11.45	12.73	17.49	8.34
Debt securities and other fixed-income securities	63.62	73.91	57.75	23.97
Loans guaranteed by mortgage	15.06	3.09	3.35	0.12
Deposits with ceding undertakings	0.19	0.01	0.90	38.49
Other investments	1.74	1.43	4.00	2.68
<b>Total of investments</b>	<b>595 560</b>	<b>53 434</b>	<b>117 391</b>	<b>108 391</b>
	= 100%	= 100%	= 100%	= 100%

Source: Bundesaufsichtsamt für das Versicherungswesen.

remunerated on a commission basis, i.e. agents and brokers.

In recent years, the number of persons employed has not changed substantially. Of note is the predominance of men in the field sales staff. As is usual in the service sector, part-time employees in the insurance industry are predominantly female.

The breakdown by category of enterprises is not without difficulties, as the majority of staff are employed by an insurance group, and their work is therefore often shared among a number of individual enterprises.



## 6. Investments

The table D9 shows the volume and breakdown of the investments according to the various categories of enterprise. It should be borne in mind that these figures were drawn from the balance sheet of the enterprises and therefore

refer to book values. According to German accounting regulations, investments must be declared at a value no higher than their historical acquisition costs and, in the case of buildings, minus scheduled depreciation, even when their current value is higher than their purchase price. At present, there is no information on current values. It therefore follows that this current value of investments is considerably higher than the book values shown in the table D9.

The savings process associated with life insurance business means that life insurance enterprises account for an overwhelming share of total investments (68.1%). In proportion to their premiums, health insurance enterprises also have a disproportionate share of investments in comparison with non-life firms. The reason for this is that such policies also incorporate saving elements (provision for increasing age).

For all insurance enterprises, attention should be paid to the growing percentage of investments in investment funds. Enterprises take advantage of the opportunities that shares in investment funds offer to avoid restrictions on equity investment.

Attention should also be drawn to the share of mortgage loans in the investments of life insurance enterprises. Such mortgage loans are generally linked to a life insurance policy whereby repayment of the mortgage is deferred until the maturity of the insurance policy (endowment mortgages).

Many insurance groups are headed by a reinsurance enterprise, not least because reinsurers are less tightly regulated than direct insurers (e.g. missing solvency guidelines). This accounts for the high proportion of investments in affiliates and participating interests of reinsurance enterprises.



# Germany

**Table D10: Gross technical provisions (1993)**

	Life insurance enterprises	Health insurance enterprises	Non-life insurance enterprises	Specialist reinsurance enterprises
	Mio DM / %	Mio DM / %	Mio DM / %	Mio DM / %
Provisions for unearned premiums	1.46	0.17	10.88	8.33
Life insurance provisions	86.47	82.24	6.94	35.59
Provisions for outstanding claims	0.58	9.81	73.26	51.96
Provisions for bonuses and rebates	10.97	7.74	1.70	0.30
Equalization provisions	-	-	4.92	2.13
Other technical provisions	0.01	0.04	2.31	1.68
Technical provisions for life assurance policies where the investments risk is borne by the policyholder	0.50	-	-	-
<b>Total of gross technical provisions</b>	<b>569 613</b> =100%	<b>51 270</b> =100%	<b>122 866</b> =100%	<b>101 174</b> =100%

Source: Bundesaufsichtsamt für das Versicherungswesen.

## 7. Gross technical provisions

In life insurance, the most important technical provision is the life insurance provision (86.5%), while in non-life insurance, by far the largest is the provision for outstanding claims (73.26%). The large surpluses generated by life insurance are reflected in the size of provisions for bonuses and rebates. In health insurance, which in Germany is generally conducted in the same way as

life insurance, provisions for increasing age are also by far the biggest item, though provisions for outstanding claims are considerably larger than in life insurance. Among specialist reinsurers, the picture is varied. Because life insurance obviously is not only reinsured on term policy base, it generates a considerable life insurance provision, and the predominance of the provision for outstanding claims is due to non-life reinsurance.

In life insurance, the ratio of technical provisions to premiums earned has fallen steadily in recent years (1991: 771.4%, 1993: 749.6%). The reason for this is the drift away from endowment policies with a saving component towards pure term policies with no investment facility. Nevertheless, in comparison with premiums earned, technical provisions are still considerably higher in life insurance than in all other classes (e.g. non-life: 128.5% in 1993).

**Table D11: Capital and reserves (1993)**

	Life insurance enterprises	Health insurance enterprises	Non-life insurance enterprises	Specialist reinsurance enterprises
	Mio DM / %	Mio DM / %	Mio DM / %	Mio DM / %
Subscribed capital	27.05	13.50	22.32	19.69
Reserve (1)	64.29	76.78	69.08	77.14
Other parts	8.66	9.68	8.60	3.16
<b>Total of capital and reserves</b>	<b>6 698</b> = 100%	<b>2 903</b> = 100%	<b>26 869</b> = 100%	<b>15 116</b> = 100%

1. Including share premium account and the funds equivalent to the subscribed capital (of which many are held by mutuals).

Source: Bundesaufsichtsamt für das Versicherungswesen.

## 8. Capital and reserves

In view of the large number of mutual societies in health insurance, the share of the total balance sheet attributable to subscribed capital is distinctly lower than in other classes. Here, the place of subscribed capital is taken by statutory reserves called "loss reserve fund". Also of note is the above-average percentage of reserves among reinsurance enterprises. This item is mainly composed of the share premium account.

As might be expected and as shown in table D12, the share of capital and reserves was lowest among life insurance enterprises and highest among non-life and reinsurance enterprises. With regard to the capital and reserves of reinsurance enterprises, it should be borne in mind that one reinsurance firm is also the parent company of a major insurance group. Excluding this firm, the ratio of capital and reserves to gross premiums written in 1993 fell at 14.7% (1992: 13.4%, 1991: 13.0%) and was therefore distinctly lower than for non-life enterprises. The reason for this may be that EU solvency rules concerning capital and reserves of insurance enterprises apply only to direct insurers.

**Table D12: Shares of capital and reserves by type of enterprise (1993)**

	Mio DM	% <sup>1</sup>
Life insurance enterprises	6 698	8.70
Health insurance enterprises	2 903	11.30
Non-life insurance enterprises	26 869	27.90
Specialist reinsurance enterprises	15 116	31.60

1. Percentage of gross premiums written.

Source: Bundesaufsichtsamt für das Versicherungswesen.

## 9. Summary and outlook

The German insurance market is one of the largest in the world and German insurance enterprises are correspondingly active on the international scene. The most common way of operating abroad is to set up a legally independent subsidiary. Foreign activity by branches or via the freedom of providing services has so far been of secondary importance. It has yet to be seen whether the creation of the European single market will change this.

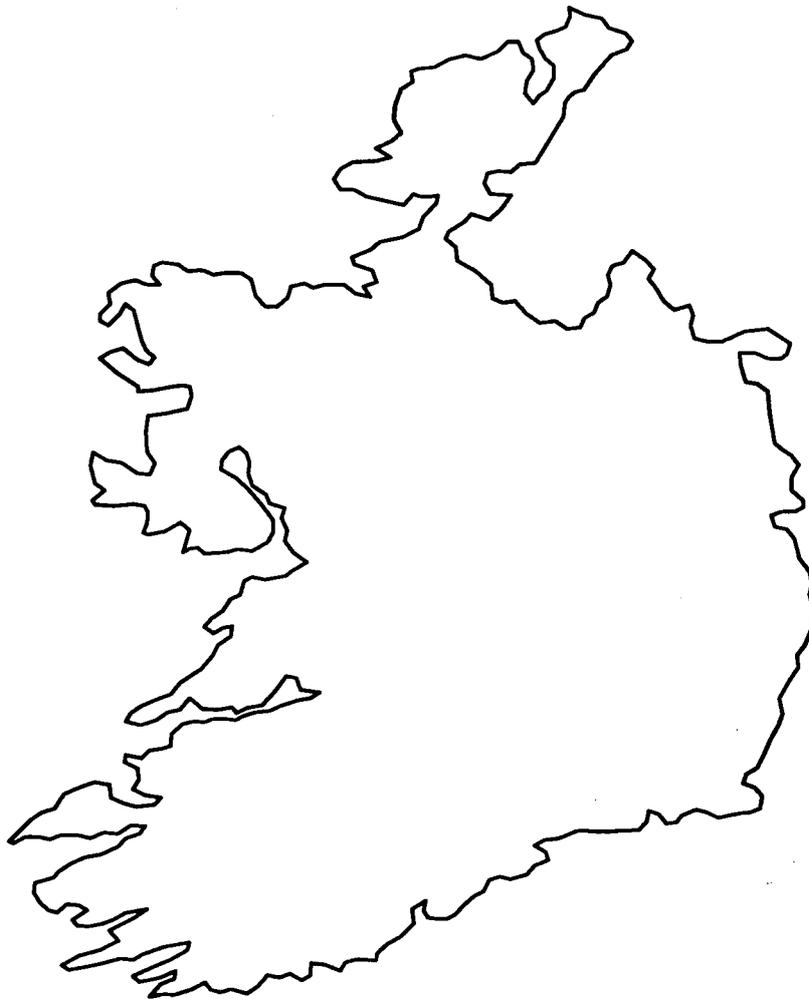
The activities of foreign insurance enterprises in Germany may be expected to grow considerably with the easing of the conditions of entry to the market. Here too, the overwhelming trend has been in favour of subsidiaries of insurance

enterprises authorized to do business in Germany.

With the advent of the internal market, a wider range of products is to be expected. This produces a better match between the supply and demand for insurance contracts, but also entails the risk of a lack of transparency in the market, particularly for private customers. The concentration of the industry is likely to increase, particularly in fields in which international competition is the strongest. It is not yet clear whether the result will be any more than closer cooperation between insurance enterprises, or an increasing number of legally-binding associations or mergers.

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# INSURANCE IN IRELAND



## 1. Introduction

The insurance industry in Ireland is highly developed and makes a significant contribution to the economy. In 1993, gross premiums written accounted for 9.8% of GDP (8.9% in 1992), while claims paid made up 2.9%.

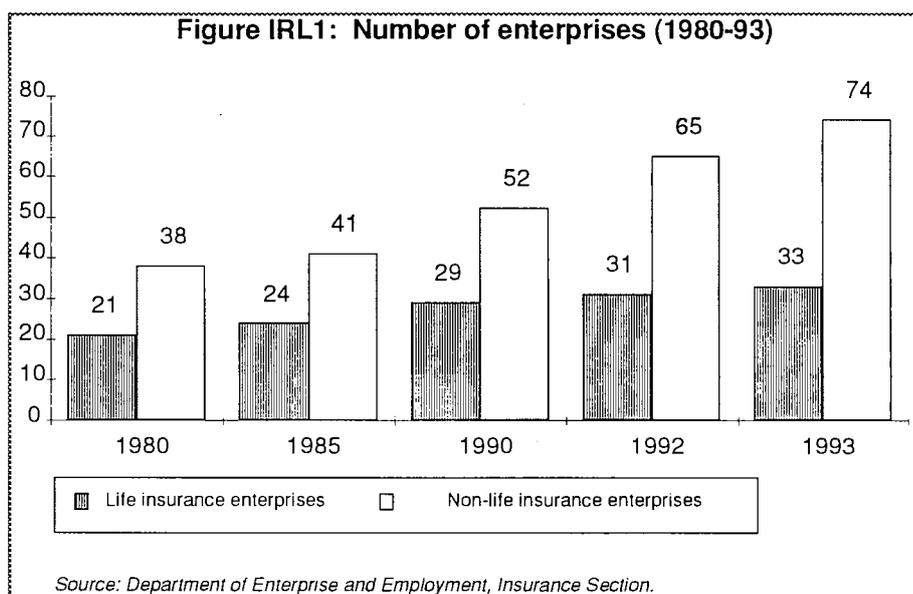
In the same year, services (including insurance) generated 54% of GDP, while the remainder was contributed by industry (37.2%) and agriculture (8.8%).

Gross premiums written for life and non-life insurance totalled IRL 3 175 million in 1993, representing IRL 891 per capita (IRL 751 in 1992). Life policies accounted for the greater part of total gross premiums written (56.2%), while non-life policies generated 43.8%.

In 1992, Irish insurers experienced mixed fortunes. Stock-market conditions made it a particularly tough year for the life insurance industry, as increasing market volatility kept investors nervous and led to a slump in the sale of single-premium investment-based life policies. Though conditions generally remained fairly stable on the non-life side, it was another difficult year for property insurers, while motor insurance rates stabilized and the 1991 improvement in this area was maintained.

A strong recovery on the stock market combined with improved investor confidence made 1993 a growth year for the life insurance sector.

The combined assets of the insurance industry totalled IRL 15 700 million in 1993, 75% of which were held by life companies.



Non-life insurance business comprises personal lines and commercial lines, with premium income evenly distributed between the two. Underwriting profits among non-life insurers are largely determined by the ratio of claims to premiums earned. On the whole, the Irish non-life insurance sector has not made an underwriting profit for many years because claims incurred plus management expenses and commissions have consistently exceeded premiums earned.

In 1993, the 33 life insurance enterprises comprised 19 Irish enterprises, 12 branches of EU enterprises, and two branches of non-EU enterprises. The 74 non-life enterprises were composed of 44 domestic enterprises, 29 branches of EU enterprises and one branch of a non-EU enterprise.

The number of life enterprises has increased in the last decade from 21 in 1980 to 33 in 1993, and this trend is likely to continue. The number of non-life

enterprises active in the market has nearly doubled since 1980 (from 38 to 74). This is due, in particular, to the activities of the International Financial Services Centre.

The life market is dominated by Irish Life Assurance which, in 1993, accounted for 32.1% of total gross life premiums written. Irish Life is a public limited company which, in 1993, generated gross premium income of IRL 572 million, of which IRL 446 million relate to the Irish head office and 106 million to a branch in the UK. Standard Life and Norwich Union are both branches of EU companies operated by a UK-registered private limited company and a UK-registered friendly society respectively.

In the non-life sector in 1993, 39.9% of gross premiums were written by the five biggest enterprises. Of the top five, Sun Alliance and London is the only branch.

The fact that a company has its head office in Ireland does not necessarily mean that it is Irish controlled. The majority

# Ireland

of Irish-registered firms are now subsidiaries of foreign-owned companies. On the non-life side, Irish-owned companies accounted for 22% of total net premium income, while foreign-owned companies accounted for 78%.

In 1993, branches of foreign enterprises accounted for 38.5% of gross premiums written. Although generally smaller than domestic enterprises, they play an important role in the Irish insurance market from both a business and an employment point of view.

Information on specialist reinsurance enterprises is not available, as such firms are not supervised by the Irish authorities. An Irish insurer may not engage in both life and non-life business, though life and non-life firms may belong to the same insurance group. Insurers are not allowed to engage in non-insurance activities.



## 2. Profit and loss account

The following data cover all business written by Irish enterprises in the country and abroad, both under the freedom to provide services (FPS) and through branches, and all business written by branches of foreign enterprises operating in Ireland.

The figure of IRL 1 315 million given for direct non-life premiums written includes IRL 70.6 million for Lloyd's. However, Lloyd's is not required to submit as detailed annual returns as other branches, and submits detailed information for motor business only. The underwriting profit or loss therefore includes Lloyd's figures only for motor business.

**Table IRL1: Top 5 life and non-life insurance enterprises (1993)**

Names of the enterprises	Gross premiums written (Mio IRL)	Growth (%) 1992-93	Market share (%)
<b>Life insurance enterprises</b>			
1) Irish Life	572	13.00	32.06
2) New Ireland	137	26.00	7.69
3) Lifetime	130	84.00	7.28
4) Standard Life	97	15.00	5.43
5) Norwich Union	96	-6.60	5.38
Total of life insurance	1 785	26.96	100.00
<b>Non-life insurance enterprises</b>			
1) Hibernian	158	11.00	11.33
2) New PMPA	129	3.00	9.31
3) Insurance Corporation	95	22.00	6.80
4) Sun Alliance + London	93	21.00	6.69
5) FBD	80	13.00	5.76
Total of non-life insurance	1 390	10.41	100.00

Source: Department of Enterprise and Employment, Insurance Section.

**Table IRL2: Profit and loss account of life and non-life enterprises (1993)**

	Non-life insurance		Life insurance	
	(Mio IRL)	%	(Mio IRL)	%
<b>Technical part / gross</b>				
Direct premiums written	1 315	94.60 <sup>1</sup>	1 782	99.83 <sup>1</sup>
Reinsurance premiums accepted	75	5.40 <sup>1</sup>	3	0.17 <sup>1</sup>
Premiums written	1 390	100.00	1 785	100.00
Investment income	-	-	605	33.89 <sup>1</sup>
Claims incurred	1 142	82.16 <sup>1</sup>	1 478	82.80 <sup>1</sup>
Operating expenses	170	12.23 <sup>1</sup>	396	22.18 <sup>1</sup>
<b>Technical part / Reinsurance share</b>				
of Gross premiums written	257	100.00	-	-
of Gross claims incurred	210	81.71 <sup>2</sup>	-	-
Net underwriting loss (4)	-99	-8.73 <sup>3</sup>	-	-

1. In percentage of gross premiums written.
2. In percentage of reinsurer's share of gross premiums written.
3. In percentage of net premiums written.
4. Net premiums earned, plus other income less claims incurred, commission and management expenses, includes LLoyd's motor business only.

Source: Department of Enterprise and Employment, Insurance Section.

In non-life insurance, the claims ratio was again at an acceptable level as operating expenses were kept fairly low. Commissions payable on single-premium business increased the operating expenses ratio in life insurance in 1993.

During the same year, new life insurance business grew by 42%. This aggregate figure is largely due to a 57% increase in new single-premium policies, as regular-premium policies increased by only 5%. This boom most benefited Irish enterprises, which attracted an 80% share of all new business (20% was done by branches).

In 1993, life insurance companies paid out IRL 1 180 million to policyholders in the form of surrenders, maturities and death claims. Death claims, at IRL 109 million, accounted for just over 9% of total claims paid, while life insurers paid out IRL 994 million in maturities and surrenders.

Though figures improved in both life and non-life insurance in 1993, the non-life sector again recorded an underwriting loss for the financial year of IRL 99 million. On the whole, profitability in the non-life

sector was therefore heavily dependent on investment income and capital gains.



### 3. Analysis of the main products

Direct premiums written include Lloyd's premiums, which, in the motor vehicle and fire and other damage to property classes, accounted for a low 2.5% and 3.1% respectively, while in general liability Lloyd's share was 12.4%.

The underwriting profit or loss, however, includes the Lloyd's figure for motor vehicle insurance only. Lloyd's contributed a profit of 3.5% or IRL 1.8 million to the overall underwriting loss of the motor vehicle class, which totalled IRL 51.5 million.

The non-life market is dominated by motor insurance which, in 1993, accounted for 46.1% of total direct premiums written, a drop of 2% in comparison with 1992. Fire and other damage to property and general liability rank second and third with respective shares of 23 and 22.4%.

The performance of classes such as motor vehicle and general liability again

demonstrates the need to reduce the claims ratios. In Ireland claims ratios are often substantially higher than among the country's European competitors. The level of underwriting losses in liability insurance continues to give cause for concern, as does the fact that many businesses are finding it increasingly difficult to obtain liability cover at affordable rates and in some cases even fail to obtain it at any price.

The current high cost of motor vehicle and liability cover is the subject of much public debate in Ireland and an issue that has given rise to intense lobbying of government by individual consumers and business. They argue that the high cost, and in some cases the unavailability of insurance cover is detrimental to keeping and creating jobs in Ireland, to labour mobility and to the ability of Irish firms to compete in the market-place.

Fire and property business suffered a decline in performance in comparison with 1992 due to an increase in claims following several bouts of particularly bad weather during the year.

**Table IRL3: Direct non-life insurance business of non-life enterprises (1993)**

	Motor vehicle	Fire and other damage to property	General liability	Accident and health
	Mio IRL/ %	Mio IRL/ %	Mio IRL/ %	Mio IRL/ %
<b>Technical part / gross</b>				
Direct premiums written (= 100%)	606	303	295	45
Claims incurred	89.87	72.63	85.48	44.15
Operating expenses	13.19	14.26	10.24	12.36
<b>Gross underwriting profit or loss (1)</b>	<b>-8.38</b>	<b>-3.47</b>	<b>-14.08</b>	<b>8.83</b>

1. Lloyd's underwriting profit or loss is only included for motor vehicle insurance.

Source: Department of Enterprise and Employment, Insurance Section.

# Ireland

In 1993, there was a boom in new linked life business, which grew by over 100%. Such business mostly took the form of single-premium policies. In contrast, other categories of new business did not experience exceptional growth rates.



## 4. Internationalization

In contrast to the high market share enjoyed by branches of foreign firms in Ireland, Irish insurance enterprises have only seven branches abroad, two of which are operated by life enterprises and five by non-life enterprises. They are all located in the EU. The two largest non-life branches are those belonging to Hibernian, with IRL 27 million, and Church and General, with IRL 26 million gross premiums written. Turnover written via branches abroad totalled IRL 136 million for life business (7.4% of total gross life premiums written) and IRL 66.5 million for non-life business (4.8% of total gross non-life premiums written).

In addition to branch business, Irish enterprises also write business under the freedom to provide services. Business written in Ireland covering risks situated in other EU countries totalled IRL 54 million for life and IRL 180 million for non-life business, representing an aggregate 8% of gross premiums written. This business is expected to grow at a steady rate owing to the establishment of a number of captive insurance enterprises in the International Financial Services Centre in Dublin.

A total of 39 branches of foreign enterprises were active in Ireland at the

**Table IRL4: New life and industrial insurance business (gross) (1993)**

	Single	Growth	Annual	Growth
	premiums	1992-93	premiums	1992-93
	Mio IRL	%	Mio IRL	%
New linked life insurance business	445	111.90	121	2.54
New non-linked life insurance	215	2.38	54	10.20
New industrial insurance business	-	-	12	0.00

Source: Department of Enterprise and Employment, Insurance Section.

end of 1993: 14 life branches and 25 non-life branches attracting a market share of 38.5% of gross premium written.



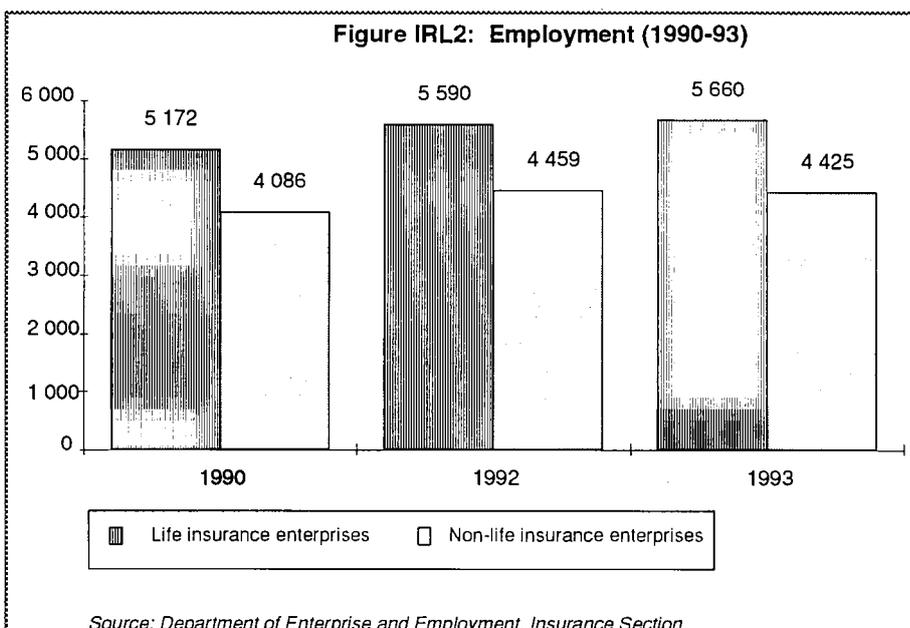
## 5. Employment

Employment in the insurance industry rose from 9 258 in 1990 to 10 085 in 1993, an increase of 8.9%. Gross premiums written increased by 21% in the same period. The productivity of insurance enterprises has obviously grown accordingly in this period.

In Ireland, insurance services are marketed both directly by insurers and through insurance intermediaries. In non-life insurance, it is estimated that most commercial business and about 50% of personal business is arranged through insurance intermediaries. Certain life assurance products are sold almost exclusively through insurance intermediaries.

In 1993, less than 1% of the total workforce in Ireland was employed by insurance enterprises directly. However, this does not take into account those employed in insurance-related activities.

**Figure IRL2: Employment (1990-93)**



The six main enterprises together employ 2 383 people for a total wage bill of IRL 60.7 million and an average wage of IRL 25 459.

## 6. Investments

Non-life insurers invest substantially in Irish and EU government securities. Indeed, in 1993, 61% of investment was in government securities. Cash held in banks and other financial institutions made up 18% of total investments.

In life insurance, shares and securities (bonds and variable-interest securities) accounted for a lower percentage than in non-life insurance. A larger part of the investment of life enterprises was in unit trusts.

## 7. Gross technical provisions

In non-life insurance, total provisions represented 208% of gross premiums written, while the corresponding figure for life insurance was 625.8%. For life insurance enterprises, provisions for unearned premiums are included in life insurance provisions.

## 8. Capital and reserves

The data shown include the capital and reserves of Irish-registered companies. Any amounts held by branches have therefore not been taken into consideration. Amounts range from XL Europe's issued capital of IRL 59

**Table IRL5: Investments (1993)**

	Life insurance enterprises	Non-life insurance enterprises
	Mio IRL / %	Mio IRL / %
Land and buildings	2.93	1.73
Deposits and current accounts	2.27	18.04
Shares (1)	14.59	13.12
Fixed and variable-yield securities	25.38	61.39
Sundry debts	1.67	5.71
Linked assets	53.15	-
<b>Total of investments</b>	<b>12 443</b>	<b>2 888</b>
	= 100%	= 100%

1. Listed and unlisted shares as well as shares in and debts due from subsidiaries and affiliated enterprises.

Source: Department of Enterprise and Employment, Insurance Section.

**Table IRL6: Gross technical provisions (1993)**

	Life insurance enterprises	Non-life insurance enterprises
	Mio IRL / %	Mio IRL / %
Provisions for unearned premiums	-	19.65
Life insurance provisions	98.20	-
Provisions for outstanding claims	-	80.25
Other technical provisions	1.80	0.10
<b>Total of gross technical provisions</b>	<b>11 170</b>	<b>2 891</b>
	=100%	=100%

Source: Department of Enterprise and Employment, Insurance Section.

**Table IRL7: Capital and reserves (1993)**

	Life insurance enterprises	Non-life insurance enterprises
	Mio IRL / %	Mio IRL / %
Subscribed capital or equivalent funds	88.48	146.26
Reserve	11.52	-46.26
<b>Total of capital and reserves</b>	<b>162</b>	<b>227</b>
	= 100%	= 100%

Source: Department of Enterprise and Employment, Insurance Section.

million to Combined Insurance in Ireland's issued capital of IRL 0.5 million. For non-life insurance, the reserve fund shows a deficit for 1993 owing to one insolvent Irish-registered company under administration.



## 9. Summary and outlook

One of the first effects of the single market has been the decisions by two non-life branches to establish head offices in Ireland. These were Guardian Royal Exchange Assurance plc and Norwich Union Fire Insurance Society Limited. Few enterprises with their head offices in Ireland can be expected to establish offices in other EU Member States.

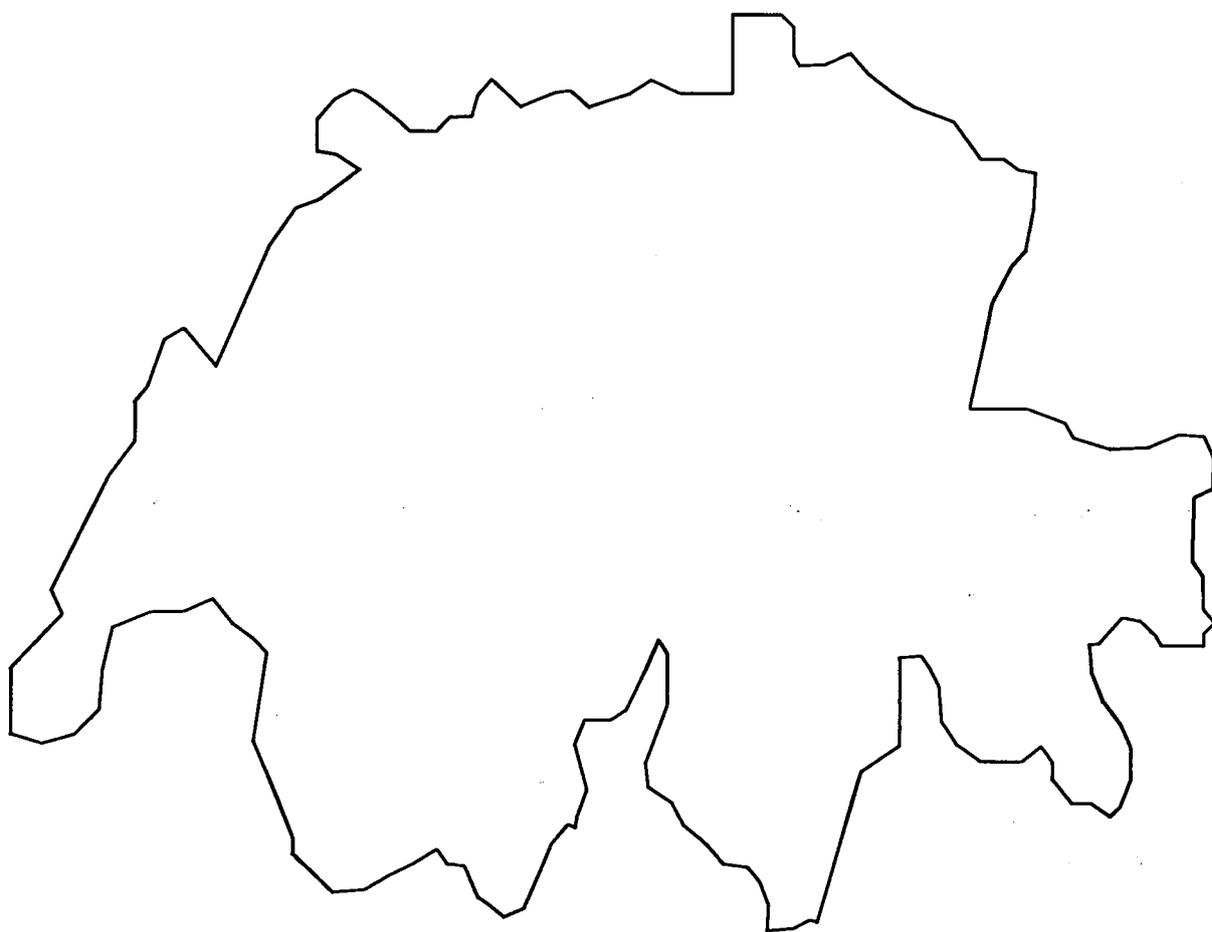
The International Financial Services Centre (IFSC) in Dublin is already firmly established as a prime location for international insurance operations. The centre was established at the Custom House Docks in Dublin in 1987, and its overriding objective was the creation of sustainable high-value employment. A government-backed fiscal incentive package, which received the approval of the European Commission, was established for actively trading financial services activities planning to locate in the IFSC. Among the internationally traded services targeted for inward investment were treasury and fund management, asset financing, insurance (life and non-life) and banking services.

The insurance sector has been an important area of activity in the IFSC, accounting for about 35% of all projects in the Centre. Within the insurance sector, captive insurance/reinsurance has proven particularly successful. Many of the major international captive management companies have a presence in the IFSC, and this has acted as a catalyst in attracting captive companies to Ireland, where they can avail themselves of a competitive range of financial incentives. The fiscal incentive package, including a 10% corporation tax on profits and exemption from municipal taxation for 10 years, applies up to the year 2005.

It is expected that the IFSC will continue to attract new companies and aid the development of the insurance industry in Ireland over the next few years.

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# INSURANCE IN SWITZERLAND



# Switzerland

## 1. Introduction

With premium income rising by 8.8% in 1993 (1992: 6%), the growth of the private insurance industry was again significantly higher than the average for the whole of the Swiss economy, which experienced nominal gross domestic product growth of 1.4% in 1993 (1992: 2%; 1991: 5.4%).

At 3.7% in 1993, premium growth in non-life insurance was lower than in 1992 (5.2%). In the industrial, motor vehicle and transport classes, the lower premium growth was a direct result of falling economic growth. In contrast, the poor economic situation boosted the number of new life insurance policies, and the Swiss life insurance market grew by 12.3% (1992: 7.4%). Low interest rates and the need to provide better cover for the future undoubtedly contributed to this development.

The Swiss continue to place great faith in economic security: they spent an average of SFR 4 230 per capita on private insurance in 1992 (up 5% on the previous year) and SFR 4 556 in 1993 (up 7.7%).

Up to the early 1980s, sales of insurance products in Switzerland took place through the insurers' own sales organizations. General, main and local agencies, whether run by employees or self-employed staff, represented almost without exception only one insurance enterprise. In the last 15 years, brokers have gained in economic significance, particularly in industrial insurance. The number of brokers and self-employed insurance advisers (small brokers with one or two employees at most) also increased, but, in comparison with neighbouring countries, remains fairly low.

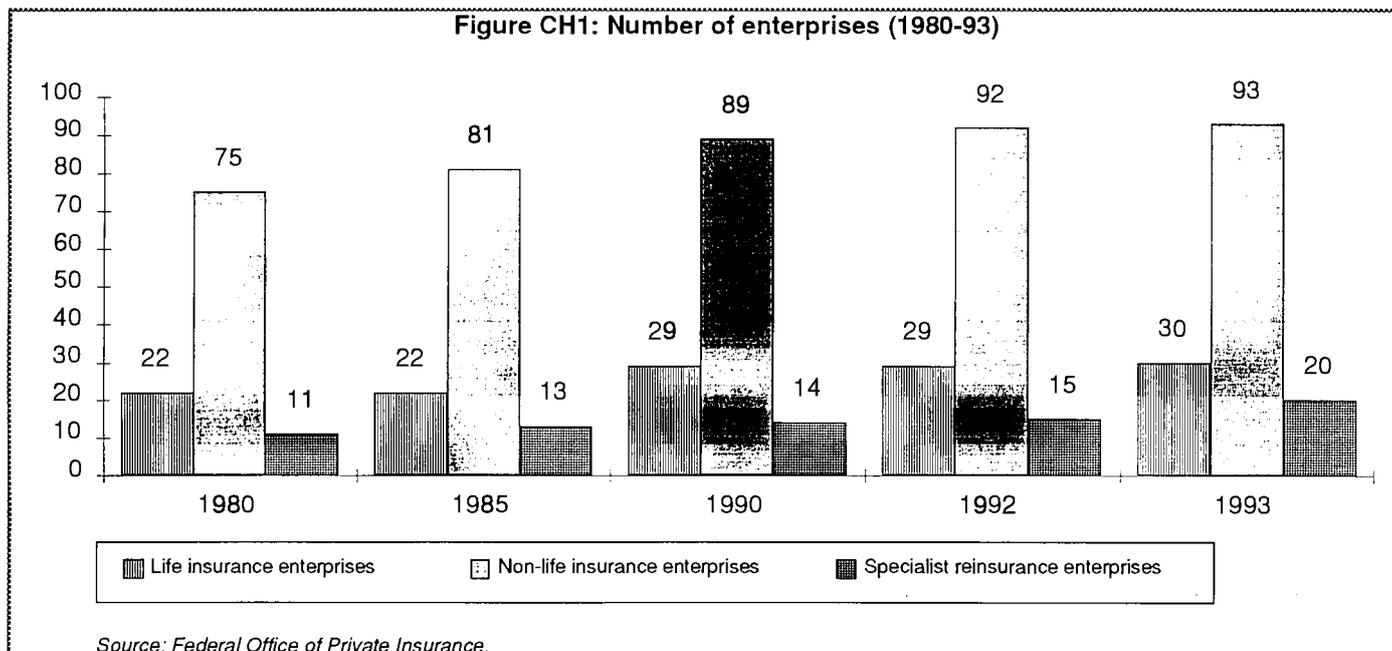
On 1 January 1993, the insurance agreement between Switzerland and the European Economic Community came into force, as did the non-life insurance

legislation based on this agreement. In line with the contents of the third generation of EU insurance directives, the previously extensive State regulation gave way to a liberalization of products. Prior approval by the regulatory authorities of insurance premiums and insurance conditions in general has largely been abandoned. The legal conformity of insurance policies and the correct calculation of premiums are now the sole responsibility of the insurance enterprises.

The agreement means that the parties thereto must guarantee complete parity of legal treatment for insurance enterprises setting up branches. This means that, in Switzerland, branches of EU insurers will not be subject to discriminatory treatment in comparison with Swiss insurers and vice versa.

On 6 December 1992, the Swiss people rejected the agreement on the European Economic Area (EEA). Despite this, under the Swisslex programme, Swiss law is to

Figure CH1: Number of enterprises (1980-93)



be brought into line with EU law as far as possible. In the field of life insurance, this means, for example, the abolition of simplified supervision (a Swiss peculiarity) and the introduction of solvency margins. Moreover, similar regulations from the second generation of directives have been adopted, such as those governing the freedom to provide services in the areas of life and non-life insurance, albeit subject to the conclusion of international agreements ensuring reciprocal rights.

At the end of 1993, some 143 domestic and foreign insurance and reinsurance enterprises were supervised by the Federal Office for Private Insurance, seven more than in 1992 (136). Five new enterprises were captive reinsurers.

Of these 143 (1992: 136) firms, 96 (1992: 97) were Swiss insurers, 27 (1992: 24) were branches of foreign insurers and 20 (1992: 15) were Swiss reinsurers. Among the direct insurers, 30 (1992: 29) were life insurance enterprises (all Swiss) and 93 (1992: 92) were non-life insurance enterprises 27 of which were foreign in 1992 and 1993.

The Swiss insurance market is fairly concentrated, with three enterprises accounting for about 60% of the life market and just two enterprises for 57% of the non-life market. There is an even higher degree of concentration in the specialist reinsurance market, which is largely dominated by one enterprise controlling almost 60% of the market.



**Table CH1: Top 5 life, non-life and specialist reinsurance enterprises (1993)**

Names of the enterprises	Gross premiums written (Mio SFR)	Growth (%) 1992-93	Market share (%)
<b>Life insurance enterprises</b>			
1) Rentenanstalt G	7 821	10.1	30.40
2) Winthertur Leben AG	4 763	2.2	18.52
3) Zürich Leben AG	3 536	5.9	13.75
4) Basler Leben AG	1 988	8.8	7.73
5) Patria Leben AG	1 332	14.1	5.18
Total of life insurance	25 723	10.0	100.00
<b>Non-life insurance enterprises</b>			
1) Zürich AG	9 621	14.1	35.81
2) Winthertur AG	5 714	3.6	21.27
3) Basler AG	1 772	4.2	6.60
4) Schweiz Mobiliar G	1 370	4.7	5.10
5) Helvetia AG	1 306	7.0	4.86
Total of non-life insurance	26 865	4.8	100.00
<b>Specialist reinsurance enterprises</b>			
1) Schweizer Rück AG	7 510	10.2	59.92
2) Union Rück AG	1 236	10.0	9.86
3) Veritas Rück AG	814	7.4	6.49
4) Europäische Rück AG	715	-2.2	5.70
5) Vitodumm Rück AG	517	90.8	4.13
Total of specialist reinsurance	12 533	12.5	100.00

G = Co-operative enterprise  
AG = Shareholding enterprise

Source: Federal Office of Private Insurance.

## 2. Profit and loss account

Premium income from all business undertaken by Swiss insurance enterprises breaks down as shown in figure CH2 (total premiums refer to total Swiss and foreign business of Swiss insurers. The figure CH2 does not include foreign subsidiaries of Swiss insurers and Swiss branches of foreign insurers).

Of total premiums of about SFR 65.1 billion in 1993 (1992: SFR 60.2 billion), SFR 44.8 billion (1992: SFR 42.1 billion)

went on claims and profit participations. At the same time, insurers and reinsurers increased technical provisions (life-insurance provisions, provisions for outstanding claims) by some SFR 15.8 billion (1992: SFR 15.2 billion). Operating expenses (overheads, commission for new business, etc.) totalled SFR 14.9 billion (1992: SFR 14.5 billion). Investment income contributed SFR 14.8 billion (1992: SFR 13.9 billion) to the income of the enterprises.

# Switzerland

Table CH2: Profit and loss account of life, non-life and specialist reinsurance enterprises (1993)

	Non-life insurance		Specialist reinsurance		Life insurance	
	(Mio SFR)	%	(Mio SFR)	%	(Mio SFR)	%
<b>Technical part / gross</b>						
Direct premiums written	21 936	81.65 <sup>1</sup>	-	-	25 390	98.71 <sup>1</sup>
Reinsurance premiums accepted	4 929	18.35 <sup>1</sup>	12 533	100.00 <sup>1</sup>	333	1.29 <sup>1</sup>
Premiums written	26 865	100.00	12 533	100.00	25 723	100.00
Investment income	- <sup>4</sup>	-	-	-	9 389 <sup>5</sup>	36.50 <sup>1</sup>
Claims incurred	21 060 <sup>6</sup>	78.39 <sup>1</sup>	9 113 <sup>7</sup>	72.71 <sup>1</sup>	7 <sup>8</sup>	0.03 <sup>1</sup>
Change in life insurance provisions	1 781	6.63 <sup>1</sup>	517	4.13 <sup>1</sup>	13 465	52.35 <sup>1</sup>
Operating expenses	8 113 <sup>9</sup>	30.20 <sup>1</sup>	3 508 <sup>9</sup>	-	3 327 <sup>10</sup>	12.93 <sup>1</sup>
Balance of the technical account	-2 308	-8.59 <sup>1</sup>	-	-	1 152	4.48 <sup>1</sup>
<b>Technical part / Reinsurance share</b>						
of Gross premiums written	3 724	100.00	-	-	-	-
Reinsurance balance	348	9.34 <sup>2</sup>	-	-	1 127	-
<b>Net balance of the technical account</b>	<b>-2 656</b>	<b>-71.32<sup>2</sup></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non technical part</b>						
Investment income	4 979	21.52 <sup>3</sup>	2 260	-	-	-
Investment charges (11)	1 262	5.45 <sup>3</sup>	597	-	-	-
Profit or loss for the financial year	1 725 <sup>12</sup>	7.45 <sup>3</sup>	303 <sup>12</sup>	-	7.00 <sup>13</sup>	-

1. In percentage of gross premiums written.

2. In percentage of reinsurer's share of gross premiums written.

3. In percentage of net premiums written.

4. No investment income is allocated to the technical account. This income is therefore included in investment income in the non-technical account. Such income comprises capital gains on investments and currencies as well as interest on all kinds of investments.

5. Investment income here refers to total business.

6. Broken down as follows: claims payments (SFR 17 964 million), profit participations brought forward to the insured (SFR 256 million), increase in net technical provisions (SFR 2 840 million).

7. Gross claims incurred.

8. Including also the surrenders and the profit participations brought forward to the insured (SFR 3 576 million in 1992; SFR 3 664 million in 1993).

9. Including commissions (gross), administrative expenses (gross), taxes and other expenses.

10. Including also expenses for the administration of the investments and taxes.

11. This comprises investment and currency losses and depreciations.

12. This is the overall profit/loss for the financial year, including the balance carried forward from the previous year.

13. There is no non-technical part of the profit and loss account.

Source: Federal Office of Private Insurance.

Table CH3: Direct non-life insurance business of non-life enterprises (1993)

	General <sup>1</sup>	Fire and other	Accident	Motor vehicle, <sup>2</sup>
	liability	damage to	and health	other classes
	Mio SFR / %	property	Mio SFR / %	Mio SFR / %
<b>Technical part / gross</b>				
Direct premiums written (= 100%)	7 305	3 344	3 257	2 946
Claims incurred	64.68	58.07	66.35	72.34
<b>Balance of the technical account</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

1. Including motor vehicle third party liability insurance. Swiss business of Swiss and foreign insurers gives the following results:

- Motor vehicles: premiums: SFR 2 109 Mio (1992: 2 083); claims incurred: SFR 1 292 Mio (1992: 1 313);

- Other: premiums being part of the motor vehicle third party liability class: SFR 1 295 million (1992: 1 224); claims incurred: SFR 632 million (1992: 655).

2. Including only motor vehicle casco insurance.

Source: Federal Office of Private Insurance.

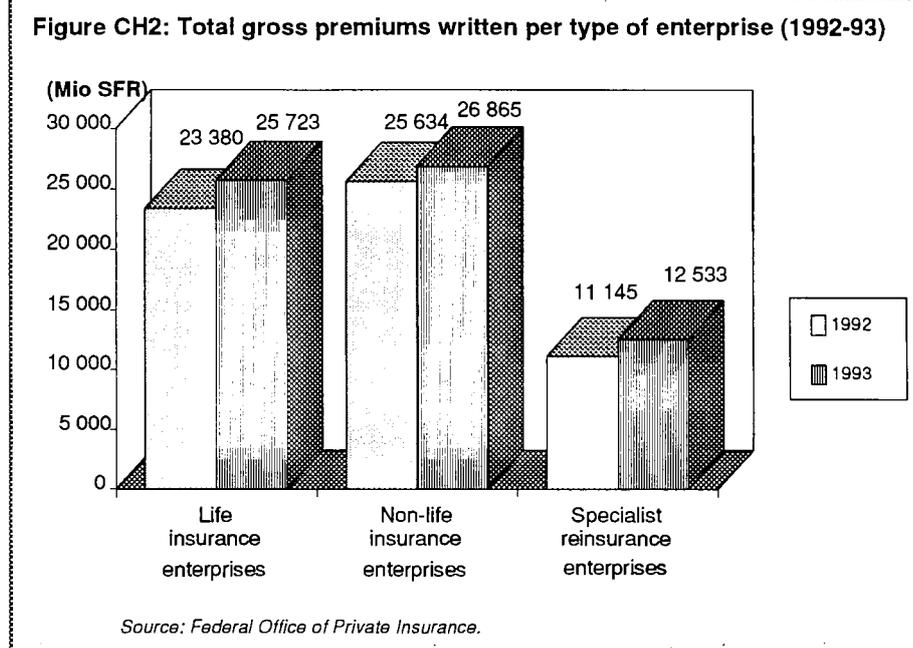
### 3. Analysis of the main products

For both direct non-life insurance business and reinsurance business accepted, the claims ratios are modest.

Motor vehicle third party liability cover is a compulsory insurance and, in terms of premiums written, the biggest category in the non-life insurance sector.

The premiums and general conditions for this class of insurance are still subject to prior official approval, as in certain types of health and life insurance. In order to promote competition, the standard premiums for motor vehicle third party insurance are expected to be abolished in 1996, as is the system of prior official approval of tariffs and terms and conditions. This could lead to higher premiums for bad risks.

The increase in the range of products that is often expected to follow deregulation, however, also means differences in insurance cover. In the motor vehicle third party class, not too much can be expected: since the minimum cover is set out in road traffic legislation, new products can only be more extensively and not



more narrowly defined, resulting in higher premiums and reduced market opportunities. This sets natural boundaries to insurers' opportunities for innovation.

### 4. Internationalization

Of total premiums of about SFR 65.1 billion in 1993 (1992: SFR 60.2 billion), an estimated SFR 30.9 billion

(1992: SFR 28.5 billion) was attributable to foreign direct insurance and reinsurance accepted. Of this total, reinsurance enterprises accounted for an estimated SFR 11.3 billion (1992: SFR 10.0 billion), non-life insurance enterprises for SFR 13.5 billion (1992: SFR 12.8 billion) and life insurance enterprises for SFR 6.1 billion (1992: SFR 5.7 billion). These figures refer to premiums written via the freedom to provide services or by branches abroad.

**Table CH4: Reinsurance business of specialist reinsurance enterprises (1993)**

	Accident and health	Fire and other damage to property	Life insurance	Marine, aviation and transport
	Mio SFR / %	Mio SFR / %	Mio SFR / %	Mio SFR / %
<b>Technical part / gross</b>				
Premiums accepted (= 100%)	4 649	4 318	1 321	748
Claims incurred	78.96	68.99	72.82	62.70
<b>Balance of the technical account</b>	-	-	-	-

Source: Federal Office of Private Insurance.

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The percentage of premiums earned by Swiss insurers from foreign sources remained high (1993: 47.5%; 1992: 47%).

In 1993, 27 branches of foreign direct insurers were operating in Switzerland (in the non-life business). These 27 outlets (not including foreign-owned Swiss enterprises) represent nearly one fifth of the enterprises operating in Switzerland but account for only a small share of the market (2.2%).

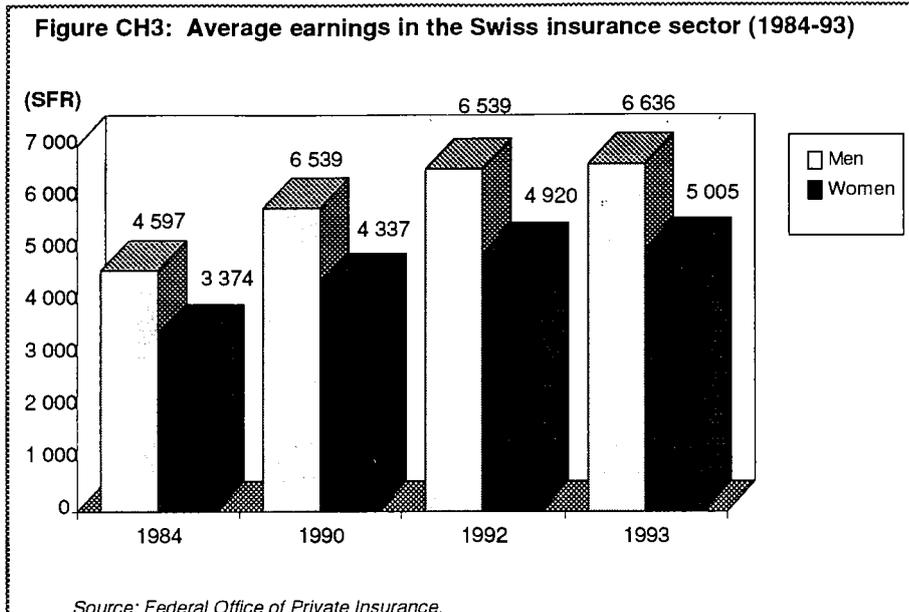


## 5. Employment

On the basis of gross earnings in October of each year, the chart shows the average earnings of all employees with the exception of managerial staff (managers, authorized signatories, etc.). The considerable gap between male and female earnings, attributable to the fact that women are still under-represented in the better paid positions, is narrowing only slowly.

Most of the enterprises belong to insurance groups with complex relations between their members. It is therefore impossible, at the moment, to provide separate figures for life and non-life employment.

A comparison with employment in the services sector as a whole shows that jobs in the insurance industry have followed a largely parallel trend, though with slightly less marked fluctuations. Generally speaking, it can be assumed that, in the period under review, there were significant productivity gains. Lastly, the proportion of female staff has been



slowly but steadily rising, and this also applies to managerial positions.



## 6. Investments

The traditionally cautious investment policies of private insurers and the investment guidelines contained in the regulatory legislation lay particular emphasis on the principle of investment security.

In non-life insurance, investment income normally covers losses in the insurance

technical account (10 to 15% of total premiums). In life insurance, the actual amount of the profit participations depends largely on such income.

The increase in stock market and currency fluctuations and the growing danger of insolvency in connection with debt securities (bonds and loans) means that in addition to technical risks, investment risks increasingly influence the solvency of insurance enterprises. On top of this come financial instruments such as options, futures, interest and exchange rate swaps, which, while opening up new

**Table CH5: Number of employees (1984-93)**

	1984	1990	1992	1993
Specialist reinsurance enterprises	1 360	1 759	2 034	2 082
All other enterprises	37 969	46 261	47 035	46 237
<b>Total</b>	<b>39 329</b>	<b>48 020</b>	<b>49 069</b>	<b>48 319</b>
Women	13 366	17 250	17 610	17 711
Share in %	34.00	35.90	35.90	36.70

Source: Federal Office of Private Insurance.

**Table CH6: Investments (1993)**

	Life insurance enterprises	Non-life insurance enterprises	Specialist reinsurance enterprises
	Mio SFR / %	Mio SFR / %	Mio SFR / %
Land and buildings (including property companies)	13.87	14.66	6.75
Shares and other variable-yield securities and units in unit trusts	10.85	25.79	19.75
Debt securities and other fixed-income securities (governmental and private, debentures)	55.11	39.01	53.37
Loans guaranteed by mortgage	18.11	6.89	1.40
Deposits with ceding undertakings	-	3.33	15.50
Other investments (loans, prepayments on policies, other investments)	2.05	10.32	3.23
<b>Total of investments</b>	<b>150 070</b>	<b>53 924</b>	<b>23 922</b>
	= 100%	= 100%	= 100%

Source: Federal Office of Private Insurance.

profit-making and hedging opportunities, conceal certain dangers unless handled by highly experienced staff.

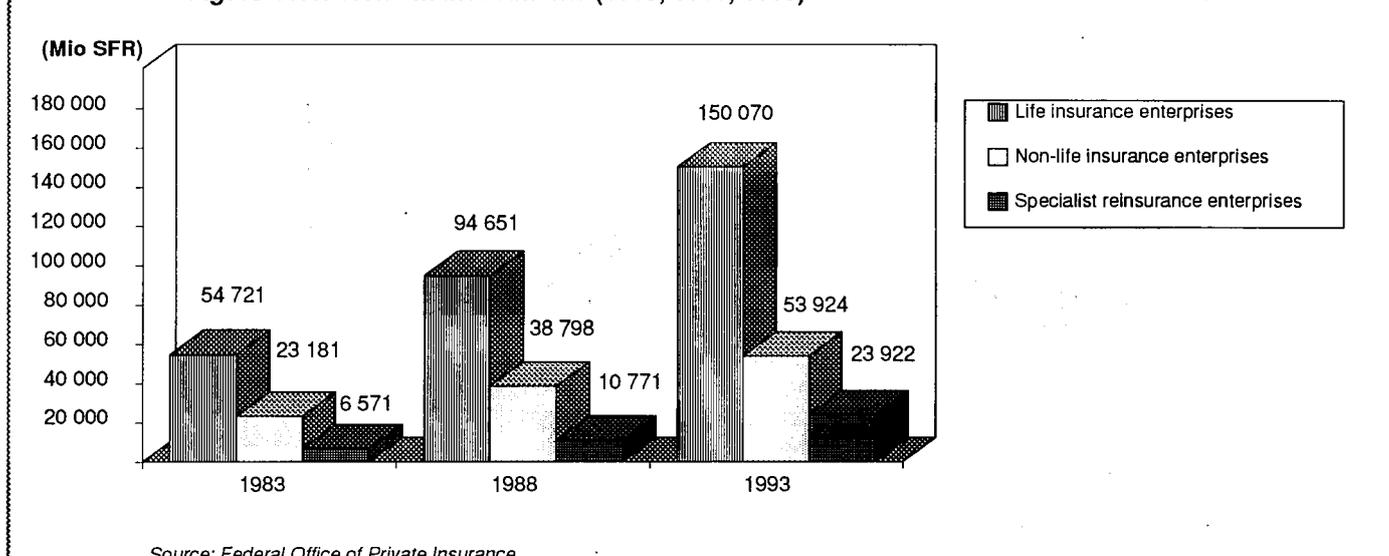
In comparison with 1983, investments more than doubled, with reinsurers experiencing the biggest increase (208%), followed by life insurers (174%) and non-life insurers (125%).

## 7. Gross technical provisions

The calculation methods of the technical provisions must generally be approved by the supervisory authority. In 1993, insurance enterprises increased their technical provisions by a total of around SFR 15.8 billion (1992: SFR 15.2 billion).

Since 1993, non-life insurance enterprises have been obliged to build up investments corresponding to the amount of the insurance technical provisions for Swiss business. Life insurance enterprises must, as before, build up a security fund for the purpose of meeting the claims of policyholders in the event of bankruptcy.

**Figure CH4: Trend in investments (1983, 1988, 1993)**



# Switzerland

**Table CH7: Gross technical provisions (1993)**

	Life insurance enterprises	Non-life insurance enterprises	Specialist reinsurance enterprises
	Mio SFR / %	Mio SFR / %	Mio SFR / %
Provisions for unearned premiums (net)	-	20.15	11.57
Life insurance provisions (gross)	93.38 <sup>1</sup>	- <sup>2</sup>	-
Provisions for outstanding claims (net)	-	71.27	71.17
Provisions for bonuses and rebates (gross) (3)	6.62	-	-
Other technical provisions (net)	-	8.58	17.27
<b>Total of gross/net technical provisions</b>	<b>150 353</b> =100%	<b>40 913</b> =100%	<b>18 852</b> =100%

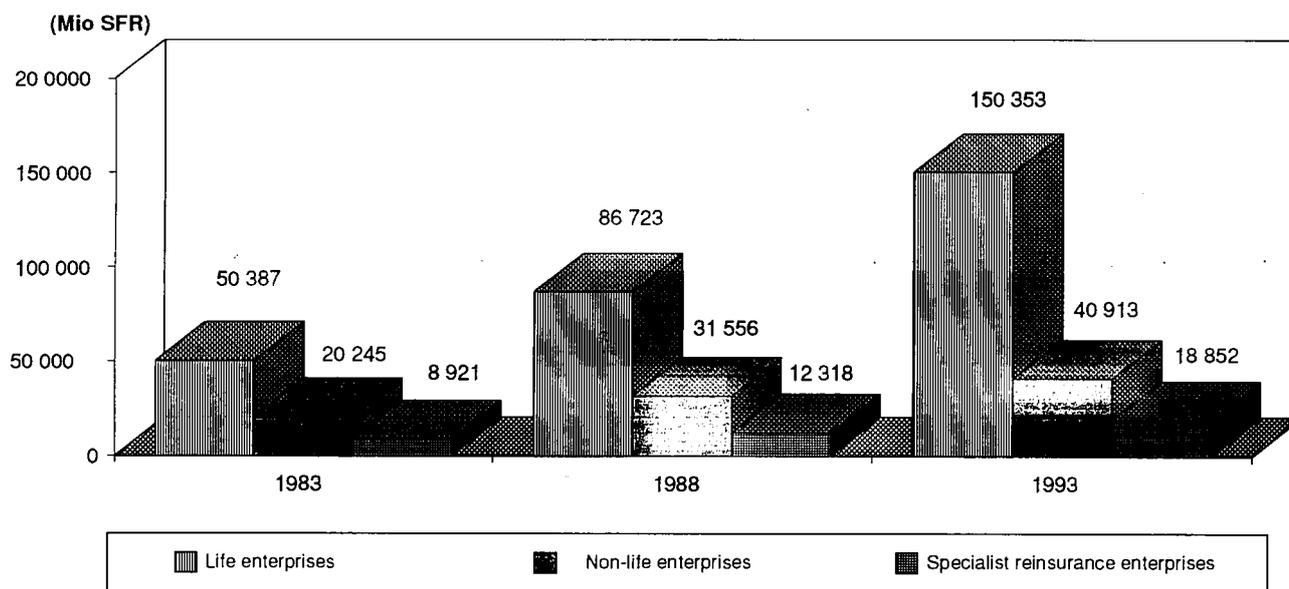
1. Including provisions for unearned premiums, provisions for outstanding claims, the equalization provision and the technical provision for life insurance policies where the investment risk is borne by the policyholder.

2. The life insurance provisions are included in the other technical provisions.

3. Including provisions for future profit participations and profit participations brought forward to the insured.

Source: Federal Office of Private Insurance.

**Figure CH5: Trend in gross technical provisions (1983, 1988, 1993)**



Source: Federal Office of Private Insurance.

**Table CH8: Capital and reserves (1993)**

	Life insurance enterprises	Non-life insurance enterprises	Specialist reinsurance enterprises
	Mio SFR / %	Mio SFR / %	Mio SFR / %
Subscribed capital or equivalent funds	31.64	14.22	14.17
Reserve	68.36	85.78	85.80
<b>Total of capital and reserves</b>	<b>1 953</b>	<b>10 625</b>	<b>4 593</b>
	= 100%	= 100%	= 100%

Source: Federal Office of Private Insurance.

In comparison with 1983, technical provisions have more than doubled, with a sharper rise among life insurance enterprises than among non-life and specialist reinsurance enterprises.



## 8. Capital and reserves

At 40%, the ratio of capital and reserves to gross premiums written was highest among non-life insurers, followed by reinsurers at 37% and life insurers at 8%. Among the latter, the percentage is traditionally lower, as the greater part of their liabilities are tied up in technical provisions. In comparison with 1988, an increase is observed in all three categories (life: up 1 percentage point; non-life: up 5; reinsurance: up 3).

As regards return on capital (ratio of overall profit/loss to capital and reserves), life insurance enterprises, with a return of 190%, were far ahead of the other two categories (non-life enterprises: 16.2%; reinsurance enterprises: 6.6%). However, among life insurers, up to about 90% of profits are distributed to policyholders.

When they start up, Swiss life and non-life insurance enterprises must comply with a minimum capital requirement that is calculated according to the type and probable extent of the insurance business the firm intends to engage in. On top of this, they must have a special fund equivalent to between 20 and 50% of the paid-up capital, depending on the planned forecast results for the first financial years.

As regards the current capital requirement for insurance enterprises, the EU solvency rules have been adopted, and capital requirements have been raised to European standards where this was not already the case. In the near future, with the phasing out of prior approval of premiums by the supervisory authority, competition between enterprises may be expected to sharpen considerably. Keener competition generally leads to smaller safety margins in tariffs and technical provisions, which means that the role of capital and reserves as a risk buffer is set to become all the more important in future.



## 9. Summary and outlook

Premium growth in the private insurance industry in 1993 was again significantly higher than the average overall growth of the Swiss economy. About half the premium income of Swiss insurers again came from abroad. If we include foreign subsidiaries, this percentage is even higher.

The short time lapse since the insurance agreement with the EEC came into force means that it is too early to draw any final conclusions on the consequences of the market deregulation. However, the range of products has broadened considerably and the market behaviour of a number of insurance enterprises has undergone a marked change. Even more significant

# Switzerland

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than the liberalization measures is the planned abolition of the standard tariff in the motor vehicle insurance third party liability class.

As Switzerland is a member of neither the EEA nor the EU, nor is a candidate for immediate membership of either organization, the above mentioned legal changes in Switzerland constitute a voluntary adoption of certain specific EU legislation.

With the increasing liberalization, the development of supervisory instruments apparatus for the insurance industry is all the more important. An important regulatory tool is, as before, the regular reporting of the enterprises. The reorganization of the reporting to bring it into line as far as possible with EU accounting rules, and the computerization of compilation and analysis procedures are major projects that have been under way for some time.

Consideration is presently being given to abandoning prior approval of premiums in life insurance too. If, as a result of this, it should prove necessary to strengthen the supervisory instruments, the insurance enterprises could be legally obliged to appoint officially qualified actuaries in their management teams.

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