



World Insurance In 1998

Deregulation, Over Capacity and Financial Crisis Curb Premium Growth

Source: - Sigma 7/1999

Industrialized countries: slight decline in non-life business, expansion of life business

In 1998 insurance companies wrote USD 2155 billion in premiums worldwide, USD 1264 billion of which was generated by life business and USD 891 billion by non-life business. This represents a rise of 2.3% over the previous year after adjustment for inflation (1997:4.40%). The increase came entirely from the life insurance business, which expanded by 4.1%, while non-life premium income declined slightly (-0.1%).

In 1998, nine-tenths of global premiums were attributable to the North American, Japanese, Western European and Oceanian markets. On a global scale, premium payments on average accounted for 7.4% of gross domestic product (GDP). The highest rate was posted by South Africa (21%). Americans spent the most on non life insurance - USD 1400 per capita - while life insurance spending was highest in Switzerland, namely USD 3400 per capita.

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Catastrophic Review For the Year 1999

Source: - Swiss Re Press Release

Catastrophes in 1999 cause large burden for the insurance industry

52,000 people died world-wide as a result of catastrophes in 1999. The total monetary cost is estimated at over USD 65 billion, although this figure does not take account of indirect economic losses. Catastrophe losses cost the insurance industry more than USD 22 billion in 1999.

High death , large economic losses

The catastrophes statistics for 1999 show that 52,000 people were killed by catastrophes, with natural catastrophes being responsible for more than 80% of victims. Nearly 25,000 victims lost their lives as a result of earthquake, and more than 16,000 as a result of storms. A large part of the total losses of over USD 65 billion, which was on par with the previous years figure, is attributable to natural catastrophes. The series of catastrophes in August and September made a major contribution to economic losses: the earthquakes in Turkey and Taiwan caused total damage of USD 20 billion and USD 14 billion, respectively; Hurricane Floyd was responsible for damage totalling USD 7 billion; and Typhoon Bart for losses in excess of USD 3 billion.

An expensive year for insurers

1999 had a large impact on insurers operating in the regions affected by earthquakes and storms, as well as on international industrial insurers and reinsurers: according to initial sigma statistics, the losses of over USD 22 billion registered in 1999 made it the most expensive year since 1994 and the fourth most expensive in the history of insurance. Damage from earthquakes, storms and man-made

reached record figures in 1999. The only reason that the loss figures of 1989, 1992 and 1994 were not equalled was because the level of insurance in Turkey and Taiwan was modest. The trend towards high losses from natural catastrophes and man-made disasters seems to be continuing unabated.

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Global premium volume totaled USD 2155 billion in 1998 (1997: USD 2131 billion), representing nominal growth of 1.10% converted into US dollars. This growth was dampened by the depreciation of the most important currencies: the Japanese yen lost 4.2% against the US dollar and the Euro-zone currencies slipped between one and two percentage points. In addition, the Asian financial crisis caused strong depreciations in the Far East.

After adjustment for national inflation, 1998 premiums in the countries examined rose by an average of 2.30% over the previous year (4.40%). Once again life business was the locomotive of growth, gaining ground of 4.1%. However, this is a marked reduction over the previous years figure of 7.60% and a shade below the long-term average. In non-life business, which contributed just over 41% to overall business, the weak growth seen in previous years continued: premium volume shrank for the first time since 1981, contracting by 0.1%. Figure 1 shows clearly the weakening growth witnessed in the nineties. During the period under review, life business has almost constantly outperformed non-life business in terms of growth.

1998 was dominated by widely differing developments in the various regions the strongest growth was recorded in Africa, followed by Oceania, Latin America, the Middle East and North America. In all these regions, 1998 growth exceeded the ten-year average. Growth rates in Western Europe amounted to just above half of their ten-year average. However, financial crises plagued the year in the Far East and Russia, setting the stage for a real reduction in premium volume in Southeast Asia and Eastern Europe.

Global premium volume: the industrialized countries dominate

Region Or Country	% of World Insurance Premium
North America	36.1%
Western Europe	31.8%
Japan	21.0%
Southeast Asia	5.0%
Latin America	1.8%
Oceania	1.8%
Africa	1.3%
Eastern Europe	0.7%
Middle East	0.5%

In absolute figures, the industrialized countries continue to dominate the rest of the insurance world (see Figure 4). Weak premium growth in 1998 is not primarily attributable to the financial crises in the emerging markets, but rather to the fact that Japan, which makes up a fifth of the global insurance market, reported a 3.80% fall in premiums. The emerging markets generated less than 10% of global premiums.

Insurance is taken out mainly in industrialized countries

Region or Country	Population In (000)	Global Share %	GDP (\$Billion)	Global Share %	Non Life		Life	
					\$Million	% of world	\$Million	% of world
America	800910	12.9	11080	38	439133	49.3	378725	30
North America	300754	4.8	9114	31.2	411561	46.2	368032	29.1
Latin America	500157	8	1965	6.7	27573	3.1	10693	0.8
Europe	1102267	17.7	9760	33.5	297126	33.3	402348	31.8
Western Europe	451254	7.2	9048	31	286221	32.1	398627	31.5
Eastern Europe	651013	10.5	712	2.4	10905	1.2	3721	0.3
Asia	3524472	56.6	7326	25.1	132252	14.8	439020	34.7
Japan	126410	2.0	3863	13.2	91991	10.3	361102	28.6
Southeast Asia	3142874	50.5	2812	9.6	33020	3.7	74410	5.9
Middle East	255188	4.1	652	2.2	7241	0.8	3507	0.3
Africa	772883	12.4	585	2.0	7125	0.8	21668	1.7
Oceania	28854	0.5	423	1.5	15476	1.7	22396	1.8
	6229377	100	29174	100	891112	100	1264156	100
Industrialized Countries	907 263	14.6	22448	76.9	805249	90.4	1150157	91
Emerging Countries	5322115	85.4	6726	23.1	85864	9.6	113999	9

Industrialized countries: slight decline in non-life business, expansion of life business

Premium volume in the industrialized countries, which we define as north America, western Europe, Japan and Oceania contributed 91% of the global market in 1998 thus exerting Decisive influence on global insurance industry growth.

A long-term comparison shows that growth in the nineties has slowed in all regions although more so in non-life than in life business. Growth in life insurance premiums fell in 1998 to 4.1% in the previous year, just around the average for the nineties. The non-life sector recorded a slight decline of 2.0% in the year under review. The cause of the stagnation is threefold: -

1. The soft market arising from New capital inflows into the insurance industry and the stock market rallies in the US and Europe, which resulted in Reduction in premiums, especially in industrial business.
2. Deregulation of the insurance industry in Europe and Japan, which sparked fiercer competition and falling prices.
3. The economic crisis in Japan which reduced the demand for insurance.

The falling prices were reflected in a Rise in the combined ratio in the five largest markets. It was clear that after the surge witnessed at the beginning of the nineties; an improvement in results was perceptible in the 1994-96 period. Since 1997 the results reported by direct insurers have once again taken a down turn

The significance of the insurance industry in the industrialized countries

Most industrialized countries generated insurance premiums in excess of USD 1000 per capita, the average being USD 2132. The share of insurance premiums in each countrys GDP was for the most part in the 4-10% range (average: 8.80/o), The Swiss made the largest outlays on insurance services in 1998, spending USD 4654 per capita, of which USD 3375 was for life insurance. As far as non-life premiums are concerned, only North America overtook the Swiss, where annual average spending was USD 1431. Measuring insurance premiums as a percentage of GDP, Switzerland is also at the top of the league of industrialized countries, although in a global comparison South Africa and South Korea exceed it. Figures in Italy and Spain were close to the EU average (USD 1651 per capita), thanks to the robust premium growth of the last few years.

Emerging markets crises in Southeast Asia and Russia, strong growth in the other markets

The emerging markets have experienced dramatic vicissitudes in the past ten years, with growth rates for the individual regions commonly fluctuating within a range of -9%and +22% The most important emerging market is Southeast Asia, which generates more than half of the total premium volume written in emerging markets. The largest contribution by a single country comes from South Korea, which boasts a quarter of the total for these markets. 1998 was shaped by the Asian crisis and the financial crisis in Russia. These crises spilled over into other emerging markets as well, raising interest rates and lowering commodity prices. In Southeast Asia and Eastern Europe, the deterioration of the economic situation in many countries contributed to an, in part, massive fall in premium volumes in many countries.

Middle East

The Middle East was hit by severe depression due to falling oil prices, with GDP contracting by an average of over 5%. However the underdeveloped insurance industry in the region was not affected. Premium income in 1998 grew in real time by 1.0% (non-life) and 9.7% (life) although, countries in the region exhibited paradoxical behavior. Iran insurance industry for example experienced healthy rate of growth 9.0% despite a state of economic crisis. Israel on the other hand experienced a similar development to Western Europe: premium rates in non-life business fell as a result of fierce competition. Life business registered strong growth in all countries averaging 9.7%

Significance of the insurance industry in the emerging markets

Insurance density (premiums per capita) is significantly lower in most emerging markets than in the Industrialized world, lying generally below USD 400 per capita and under USD 100 in more half of the countries, premium expenditures is over USD 1000 per capita. Which is on a par with the industrialized countries.

Even taking into account the fact that income is considerably lower in the emerging markets than in the industrialized countries, insurance structures in the emerging markets are still relatively rudimentary. Expenditure on insurance services as a percentage of income (insurance premium) is clearly lower than in the industrialized world it is average 3% of GDP in the emerging regions compared to 8.8% in the industrialized countries at the same time, the emerging markets include the two countries with the worlds highest level of insurance penetration. South Africa (21%) and south Korea (14%) in both of these countries, saving through life insurance is a much more attractive proposition than bank savings //

More Informative Tables Continued in page 6

Six billion-dollar losses

Almost half of the insurance industrys claims originated from six billion-dollar loss events. Typhoon Bart caused insured losses in Japan of approximately USD 2.5 billion, and, in the Bahamas and on the south-east coast of the US, Hurricane Floyd was responsible for around USD 2.2 billion worth of damage. The earthquake in western Turkey on 17 August caused insured losses of approximately USD 2 billion, while a series of more than 70 tornadoes in the Mid-West resulted in losses of around USD 1.5 billion. The earthquake in Taiwan and the hailstorm in Sydney each registered insured losses of approximately USD 1 billion. Of the insured losses resulting from man-made disasters totaling more than USD 4 billion, more than half were attributable to major fires and explosions. Particularly expensive events in the US were the explosions in a power station (USD 650 million), an aluminum plant (USD 275 million) and an oil refinery (USD 247 million). Aviation and space insurers, for their part, wrote losses in excess of USD 1.5 billion.

Swiss Res 1999 natural catastrophe losses

Losses resulting from catastrophes were higher in 1999 than in the period 1995-1998. For the reinsurance industry as a whole, 1999 saw an accumulation of medium-sized losses. No very expensive major losses were recorded in heavily exposed key markets, either for the reinsurance industry or for Swiss Re, which writes reinsurance cover against catastrophe losses in all markets.

Events in 1999 had differing impacts on Swiss Re: losses from catastrophes in the US (eg Hurricane Floyd) and Japan (Typhoon Bart) were not large enough to trigger considerable claims for the reinsurer. Swiss Re was affected by other events, such as the earthquake in Taiwan, the hailstorm in Sydney and flooding in Switzerland, to the extent of its market share. Given Swiss Res low treaty shares in the region, the earthquake in Turkey had a comparatively low impact on the company. Overall, Swiss Res 1999 natural catastrophe losses lie below the long-term expected average.

The Six Most Expensive Insurance Losses in 1999

Event	Insured losses in USD Billion	As a % of non life premiums	Total losses in USD Billion	As a % of Gross Domestic Product
Japan 22.9, typhoon Bart	2.5	2.7%	3.3	0.12%
US, Bahamas, 10-17.9, Hurricane Floyd	2.2	0.6%	7.0	0.08%
Turkey, 17.8, Earthquake (Richter scale:7.4)	2.0	114.3%	20	10.1%
US, 3.-7.5, Series of 70 Tornadoes	1.5	0.4%	0	0
Taiwan, 21.9, Earthquake (Mercali scale:7.6)	1.0	20.1%	14	5.4%
Australia, 14.4, Sydney hailstorm	1.0	11.6%	0	0

The Five Worst Catastrophes in terms of Fatalities in 1999

Event	Dead Or Missing (at least)	Injured
Turkey, 17.8, Earthquake in Izmit	19,118	40,000
India, 29.-30.1, tropical Cyclone in Orissa	15,000	-
Taiwan, 21.9, Earthquake in Nantou	2,321	8,731
Colombia, 25.1, Earthquake in Armenia	1,025	4,117
China, 15.5-21.7, Yangtza Flooding	725	-

Major Reinsurance Mergers & Acquisitions in 1999

Company (country)	Buyer (country)	date	price
TIG RE (US)	FAIRFAX HOLDINGS (CANADA)	Jan/ 99	\$842 m
VESTA FIRE INSURANCE (US)	HARTFORD RE (US)	Jan/ 99	Undisclosed
FOX PITT KELTON(UK)	SWISS RE	Mar/99	Undisclosed
ROYAL MACCABEES LIFE (US)	SWISS RE	Mar/99	\$ 380 m
EAGLE STAR (UK)	ERC FRANKONA	Mar/99	Undisclosed
TIG RE (CASUALTY FAC)	GERLING AMERICA	Mar/99	Undisclosed
PFA RE (FRANCE)	HAMBURGER INT. (GERMANY)	Apr/99	Undisclosed
INTERCARGO CORP (US)	XL CAPITAL (BERMUDA)	Apr/99	\$ 88 m
NORTHERN MARINE (UK)	MUNICH RE	May/99	\$ 2m
ECS INC. (US)	XL CAPITAL (BERMUDA)	Jun/99	Undisclosed
NAC RE(US)	XL CAPITAL (BERMUDA)	Jun/99	\$ 1010 m
USF RE (US)	FOLKSAMERICA (US)	Jun/99	\$ 97.5 m
COMMERCIAL RISK PARTNERS (US)	SCOR	Jun/99	\$86 m
CIGNA (US)	ACE (BERMUDA)	Jul/99	\$ 3450 m
PHOENIX LIFE (US)	ERC LIFE (US)	Aug/99	Undisclosed
CHARWELL RE (US)	TRENWICK GROUP (US)	Oct/99	Undisclosed
KEMPER EUROPE RE	SIRIUS	Dec/99	Undisclosed
CHATHAM RE (US)	MAPFRE RE	Dec/99	Undisclosed
EQUUS RE (US)	RHINE RE	Dec/99	Undisclosed
CAPITAL RE (US)	ACE (BERMUDA)	Dec/99	\$ 511 m
UNITED NATIONAL GROUP (US)	AMERICAN RE	Dec/99	Undisclosed
TERRA NOVA (BERMUDA)	MARKEL CORP.(US)	Jan/00	\$ 905 m

The Largest Insurance Brokers Worldwide In 1998

<i>Broker</i>	<i>1998 revenues</i>	<i>+ Change from 97 %</i>	<i>No. of employees</i>
March	\$ 5,878 Million	43%	46,900
Aon	\$ 4,397 Million	9.1%	34,000
Willis	\$ 1,189 Million	5%	9,204
Arthur J.Gallegher & Co.	\$ 524 Million	13.1%	4,288
Jardine Lloyd Thompson	\$ 417 Million	5.7%	3,475
USI Insurance Services	\$ 327 Million	38.9%	3,232
Acordia	\$ 310 Million	1.5%	3,361
Alexander Forbes	\$ 276 Million	10.8%	4,383
Gras Savoye & CIE	\$ 259 Million	6.2%	2,005
Lambert Funchurch	\$ 252 Million	11.5%	2,510

Total Business in 1998 By Continent and Country
Life & Non-Life Business

Country	Rank	Premiums in US\$ Billion	Real Growth 98/97 %	Share of World Market %
United States	1	736	5.3%	34.17%
Japan	2	454	-3.8%	21.02%
United Kingdom	3	181	7.2%	7.20%
Germany	4	137	0.7%	6.34%
France	5	117	-11.6%	5.41%
Italy	6	58	1.98%	2.69%
South Korea	7	48	-3.8%	2.23%
Canada	8	43	-2.5%	2%
Netherlands	9	37	7.9%	1.72%
Australia	10	34	12.4%	1.6%
Egypt	54	0.54		0.023%

Insurance Density: Premium per Capita in USD

Country	Rank	Premium
Switzerland	1	4654
Japan	2	3584
United Kingdom	3	2860
United States	4	2722
Netherlands	5	2360
Denmark	6	2230
Finland	7	2028
France	8	1962
Australia	9	1931
Ireland	10	1904
Egypt	83	8.5

This newsletter have been prepared and edited by

Gamal Sakr ACII

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Send an e-mail to

Gamal.sakr@mailcity.com

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