

European Commission  
Competition GD  
Directorate D  
Unit D 1 Financial services

Mail: [comp-ins-inquiry-feedback@ec.europa.eu](mailto:comp-ins-inquiry-feedback@ec.europa.eu)

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## Business Insurance sector inquiry - interim report

Dear Sirs,

The Danish Insurance Association has studied the interim report on the Business insurance sector inquiry and would like to give our comments to the report. The association is of course in agreement with the opinions given in the response from CEA.

The evaluation of the competitive pressure and the function of markets is a complicated issue, as a number of indicators are necessary to get a reasonable overview and a reasonable assessment. Examples are price levels, profitability, wage premiums etc. And indicators should span a complete business cycle in order to avoid short run impact of business cycle related effects.

In our opinion the interim report does not fulfil these overall qualifications to reach a reasonable assessment. In many aspects the analysis is partial and hence should be interpreted with great cautiousness.

### *Financial aspects (VI)*

Conclusions or even indications of possible conclusions on the competition situation in the different countries and the comparisons between the countries must be stated with great care:

- The analysis of the competition situation in the different markets is based on only one sole measurement - the combined ratio. Other competition dimensions should be included in the analysis.
- The combined ratio does not necessarily indicate the profitability in the insurance business. At least the analysis should weigh the combined ratios against the annual net investment returns.
- The data should be verified thoroughly. E.g. it seems odd that the combined ratio of "commercial non life total" in some countries is significantly higher than each of the combined ratios of the individual insurance lines (Figure VI.3).

*Reinsurance (VIII)*

The Danish Insurance Association has the following comments concerning trends at the reinsurance market in Denmark:

- 1) Things are moving from a situation with rather few, preferred reinsurers towards a more diversified market with new cross border players.
- 2) The use of the "best terms and conditions" - clause is decreasing in the Danish market and the clause is more or less expected to disappear in the forthcoming years.

*Remuneration of brokers - foreign insurance companies entry into Denmark (IX)*

From 1 July 2006 an amendment to the Danish Intermediary Act means that Danish insurance companies are not allowed to pay brokers. There is a transition period up till July 2011. We would like to explain the background in order to have this described in the final report:

According to the Intermediary Act a broker can only serve his client. However, brokers were accused that they placed insurance contracts in companies which paid the most to them and their independence of insurance companies were very much discussed. This resulted in a report from the Financial Supervisory Authority in 2004 and later in the amendment just mentioned. Danish Insurance companies are still allowed to pay brokers if the broker gives some sort of service to the company but only if this service is not given in a concrete customer relation.

Foreign insurers not established in Denmark can use Danish brokers and the broker is allowed to be paid by the foreign insurance companies. According to the act the broker shall pass the money from the foreign insurance company to the insured. The interim report is therefore not correct as there is no barrier for foreign insurers to entry the Danish markets. Foreign insurers can still rely on brokers as distribution channel (page 100).

*Block Exemption Regulation (BER) - problems? (X)*

The interim report says that as there are differences in horizontal cooperation among insurers in the different member states one could raise doubts about the justification of such cooperation and the scope of the BER. It is not easy to understand this statement as there cannot be any doubt that there are differences between insurance markets in the EU and therefore in their attitude to BER.

The Danish Insurance Association has not been presented with any complaints from the Competition Authorities or others that our understanding of the BER is wrong or misused. This applies both to Regulation 3932/92 and its follower Regulation 358/2003 which shall expire on 31 March 2010. We do not doubt that the use of BER was very well considered by the Commission and the competition authorities in connection with Regulation 358/2003.

The final report should explain the advantages of BER: It simplifies administrative supervision and provide adequate legal security for undertakings. Standard policy conditions and agreements on security devices which meet the conditions of the BER are important for customers and insurance companies: Customers mobility is dependent on this - it makes it easy to change to another company when standard policy conditions and standard of security devices

do not differ. Furthermore it makes it easy for foreign companies and small national companies to entry the market.

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The Danish Insurance Association would like to thank for the possibility to give our comments to the interim report. Please feel free to contact us for further information.

Yours sincerely,

Claus Tønnesen  
[ca@forsikringenshus.dk](mailto:ca@forsikringenshus.dk)

Jane Emke  
[je@forsikringenshus.dk](mailto:je@forsikringenshus.dk)