



Association of British Insurers

**ABI RESPONSE TO THE
EUROPEAN COMMISSION INQUIRY INTO THE
EUROPEAN BUSINESS INSURANCE SECTOR**

**PROFITABILITY AND
CONCENTRATION IN THE
UK GENERAL INSURANCE
MARKET**

Report by ABI Research Department

10 April 2007

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1.0 INTRODUCTION AND SUMMARY

The European Commission (the “**Commission**”) launched an inquiry into the European non-life business insurance sector in July 2005. This was followed by DG Competition’s interim report in January 2007.

In this paper we analyse the profitability and concentration levels in the UK’s general (i.e. non-life) insurance industry, and cast doubt on some of the main conclusions set out in the Commission’s interim report. We have taken general insurance as a proxy for business insurance, as reliable statistics are available. We accept that there are differences of scope, but we believe that the conclusions for general insurance hold good for business insurance. Our key findings can be summarised as follows:

1. The UK’s general insurance market is highly competitive and contestable. The UK’s insurance market is also attractive to foreign-owned insurers, which since 2002 accounted for at least 30% of annual net premium income;
2. The Commission’s analysis of underwriting combined ratios is questionable. We conclude that the weighted combined ratio in the general insurance sector over the period 1995-2005 is equal to 100%. In other words, the UK’s general insurance sector broke even on its underwriting activity during that period;
3. The cyclical pattern of technical results is extremely important. While underwriting results improved in 2004 and 2005, the general insurance industry was making losses on its underwriting activity between 1995-2003. By restricting its analysis to the period 2000-2005 and putting more emphasis on industry results in 2005, the Commission provides an inaccurate and misleading picture of the sector;
4. Insurers’ investment returns are significantly lower than those used in the Commission’s interim report. In particular the weighted net investment return of UK’s general insurers over the period 1995-2005 is 11.8% rather than the 16.8% used by the Commission. The ABI’s estimate of average profitability is therefore substantially lower than the figure put forward by the Commission: a modest 9% over the period 1995-2005;
5. The UK general insurance sector raises no competition or market failure concerns. The market share controlled by the largest general insurance groups is low, and the standard concentration measure (HHI) often used in antitrust policy analysis, indicates that the UK general insurance industry is highly fragmented.

2.0 BACKGROUND ON INSURANCE BUSINESS IN THE UK

The Association of British Insurers (ABI) is the trade body that represents the collective interests of the UK's insurance industry. The ABI currently has around 400 members. These insurers provide nearly 94% of the domestic insurance services sold in the UK. ABI member companies are prominent institutional investors and account for almost 17% of investments in the London stock market. As at 31 December 2005, the insurance industry in Great Britain had about £1,330 billion invested in company shares and other assets on behalf of millions of savers and general insurance customers in the UK and elsewhere. The returns on financial and non-financial assets purchased with insurance premiums are discussed in more detail in Section 3.2.

The UK insurance industry is the largest in Europe and the third largest in the world, accounting for nearly 8.8% of total worldwide premium income in 2005; see Swiss Re (2006b). In terms of Gross Domestic Product (GDP), the UK has the highest insurance penetration among industrialised countries, with premiums amounting to 12.5% of GDP in 2005.¹ The market also shows a good degree of competition and choice, which enable customers to shop for the best premium-policy cover mix and to switch insurer easily.

Insurers provide protection against uncertainty and loss, paying claims worth about £20 billion a year. In 2005 for example, UK insurers paid out £57 million per day in general insurance claims. This included £18.8 million in private motor claims, £9.2 million in liability claims (accidents at work, professional liability, and injuries to the public on commercial premises), £8.6 million to households, and £6.2 million to business on property damage. More information on annual claims and underwriting results by business sector can be found in Section 3.

The UK insurance industry is highly competitive and contestable. On the demand side, consumers face low switching costs and web-based insurance comparison sites have generated important reductions in search costs for customers. In general insurance, for instance, the change is most clear for retail sales. Between 1995 and 2005 the proportion of people buying insurance through brokers has decreased from 54% to 32%, while the percentage buying directly from insurers increased from virtually nothing to 31%.

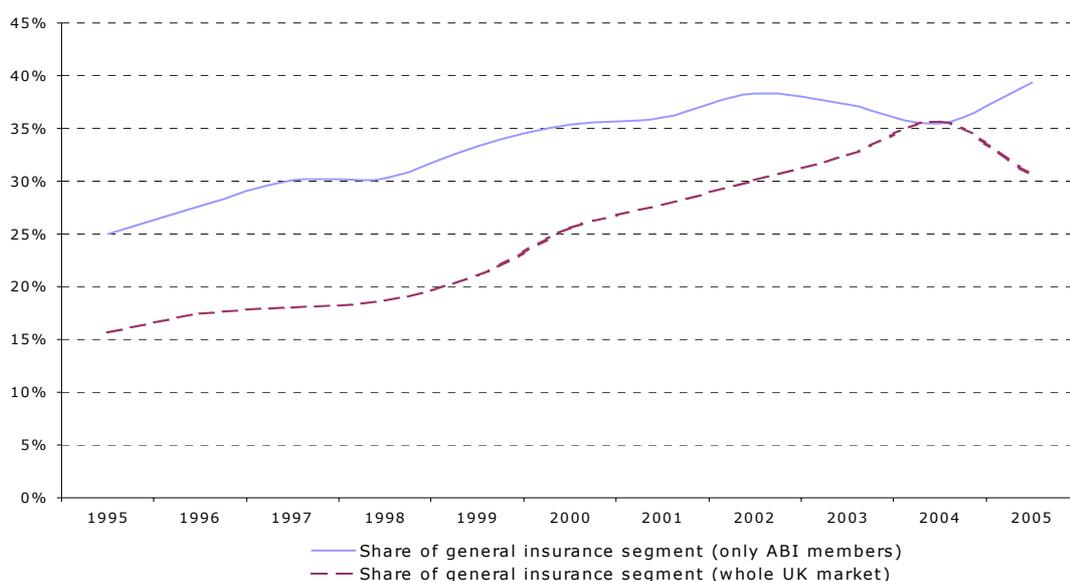
On the supply side, low barriers to entry have led to the authorisation of 1,118 insurance companies by the Financial Services Authority (the UK's financial watchdog) to carry out insurance business in the UK. Of these, 836 insurers (75%) carry out general business (e.g. commercial general insurance). The number of general insurance brokers operating in the UK was calculated by the FSA to be 9,473 in 2006.

The degree of openness of the British insurance sector is also captured by the importance of foreign capital in the domestic business. Foreign firms both compete directly with local insurers and UK firms. Figure 1 shows the proportion of the UK's general insurance

¹ UK's insurance penetration in the third largest worldwide; Taiwan and South Africa occupy the first and second places, respectively (see Swiss Re, 2006b).

business controlled by non-domestic companies, according to figures published by the ABI. The market share of foreign companies (as the proportion of net premium income) has remained above 30% since 2002.² The importance of foreign capital in the domestic insurance market has also been acknowledged by the Commission, which calculated that in 2004 the market share controlled by foreign companies in the British general insurance market, was the highest among the major domestic European general insurance markets.

Figure 1 Foreign companies' share of UK's general insurance market, 1995-2005.



Note: Market shares are based on net written premiums. Foreign controlled companies are those whose ultimate non-domestic parent (by-passing the existence of a UK holding company) owns more than 50% of the UK insurer or subsidiary.

Source: Research Department, ABI.

In sum, we conclude that the British insurance industry has low barriers to entry and is open to international insurance companies. Competition on the supply side of the market ensures an efficient level of choice, innovation and fair prices for customers.

² The business lines underlying these figures are motor, property, accident & health, pecuniary loss, general liability, MAT and non-MAT reinsurance.

3.0 PREMIUMS, CLAIMS AND PROFITABILITY

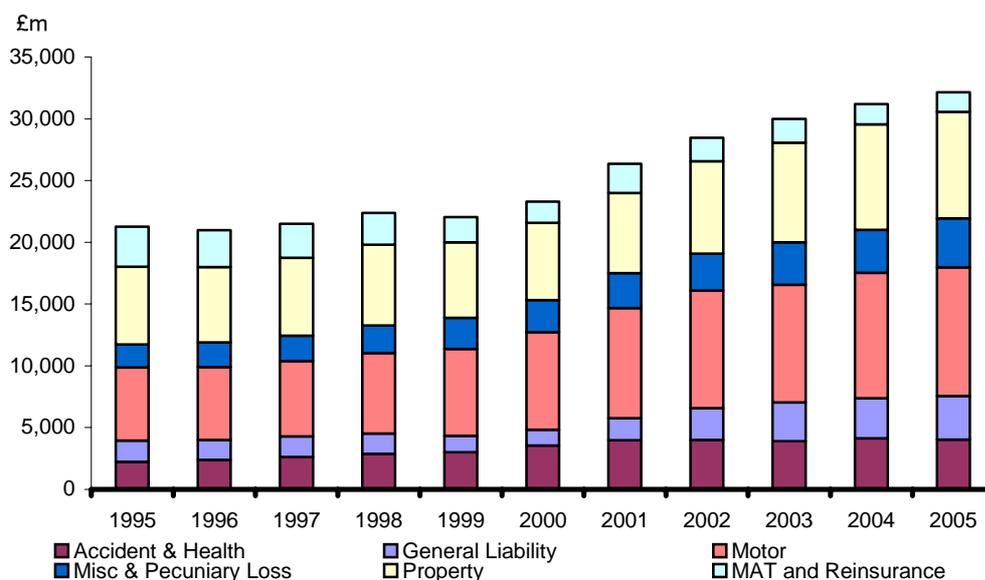
Most of the analysis contained in this section is based on accounting data provided to the ABI by its members. We also use accounting and financial data published by the FSA, and based on UK insurers' returns.

In 2005, total net premiums (i.e. written premium less reinsurance premiums paid by the insurer) for general insurance was £54.3 billion. This figure breaks down as follows:

- Motor: £11.9 billion;
- Property: £9.9 billion;
- Accident & Health (i.e. Personal Accident and Private Medical Insurance): £5.0 billion;
- Miscellaneous & Pecuniary Loss (e.g. Payment Protection, Legal Expenses, other financial losses): £4.4 billion;
- General Liability: £4.6 billion;
- Marine, Aviation & Transport (MAT) and Reinsurance: £8.6 billion.

Figure 2 is based on ABI returns and displays the evolution of net premiums, by type of general insurance product, between 1995 and 2005. Motor, Property and Accident & Health represent the major sources of premium income for UK insurers, accounting for approximately three quarters (72%) of total premiums in 2005. This chart also indicates that the underlying composition of total net premiums has remained relatively stable throughout the decade, except for MAT and reinsurance that have decreased in importance.

Figure 2 Total net premium by type of general insurance, 1995-2005.

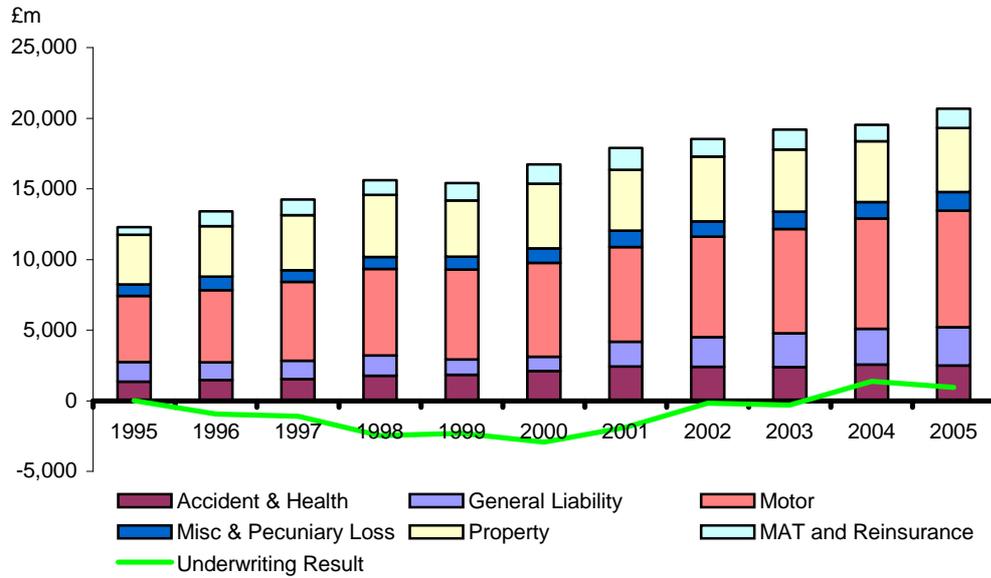


Source: ABI (2007).

Between 1995 and 2005, total claims payouts have increased by 68%, from £12.3 billion in 1995 to £20.7 billion in 2005. This is illustrated in Figure 3, which shows the evolution of claims by general insurance sector together with aggregate underwriting results over the period 1995-2005. Insurance underwriting results stand for the profit or loss made by

an insurer on its underwriting activity. It is calculated as the net premium income (i.e. net of reinsurance premiums) less the cost of claims and the insurer's expenses in connection with the business line (e.g., intermediaries' commissions). A mathematical expression for the underwriting results can be found in Appendix A1.

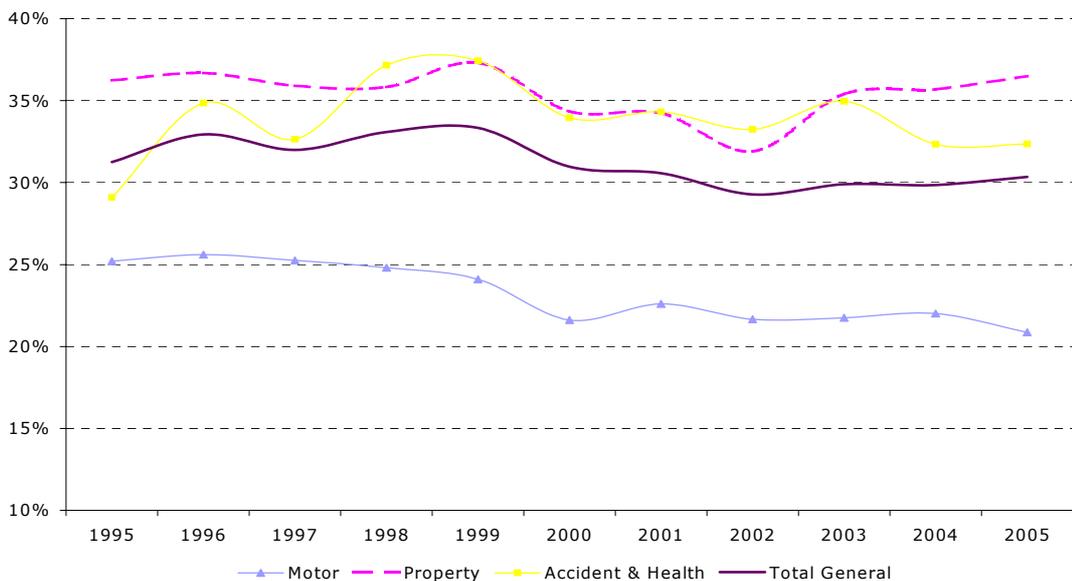
Figure 3 Total claims (by product line) and underwriting results, 1995-2005.



Source: ABI (2007).

Figure 4 displays the evolution over the same period of the ratio of commissions and expenses to net written premiums for the main business lines and for the overall UK general insurance market.

Figure 4 Expense ratio (commission and expenses/premiums) by type of business, 1995-2005.

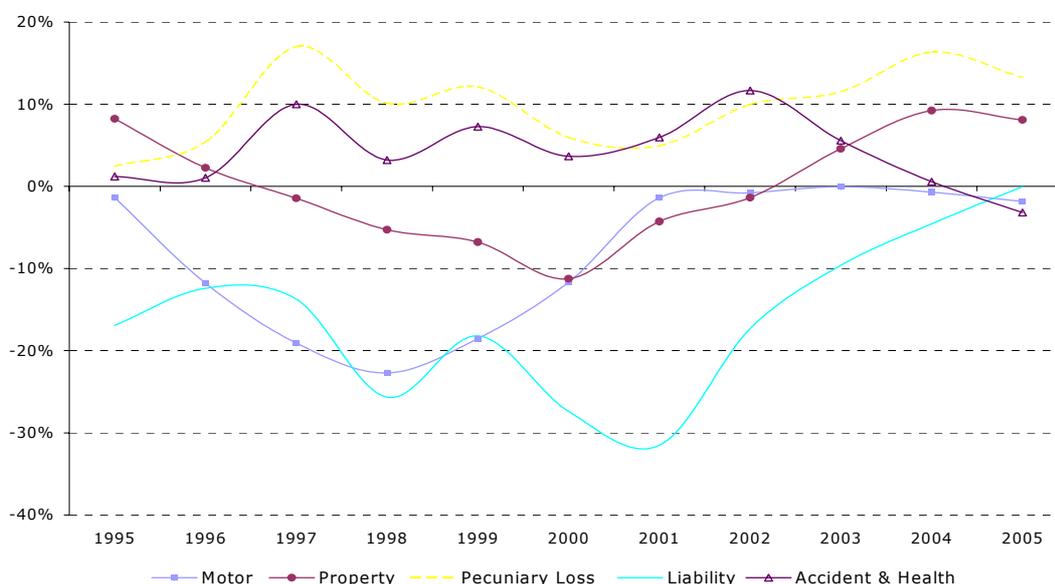


Source: Research Department, ABI.

Figure 3 shows that in more recent years there has been an improvement in the underwriting results of UK insurers. This in part reflects a reduction in companies' expenses (an efficiency drive) at the beginning of the century (see Figure 4), and the decision made by some companies to withdraw from unprofitable sectors of the general insurance market. The evolution of insurers' underwriting results for five different general insurance business lines, expressed as a percentage of net premium income, is displayed in Figure 5.

Figures 3, 4 and 5 highlight the importance of considering general insurance cycles when looking at market profitability. Cyclical patterns in underwriting profits are especially important in general insurance.³ The business insurance market in particular has experienced periods of losses, insolvencies and lower levels of profitability. Therefore a snapshot of the industry's underwriting profits during a relatively short period of time, as was used by the Commission in its interim report, may lead to flawed conclusions – either underestimation or overestimation of long-term returns. While underwriting results improved slightly during 2004 and 2005, it was common for UK general insurers to make operating losses during the second half of the 1990s. Negative returns on underwriting activities have often been offset by income from investments in the financial and non-financial markets (see Section 3.2).

Figure 5 UK underwriting results (% of net written premium) by type of general insurance business, 1995-2005.



Source: Research Department, ABI.

The above chart also highlights the potential inadequacy of averaging underwriting results across many different lines of general insurance. Operating profitability seems to exhibit substantial cross-product variation, which implies average figures may lead to inaccurate, misleading conclusions.

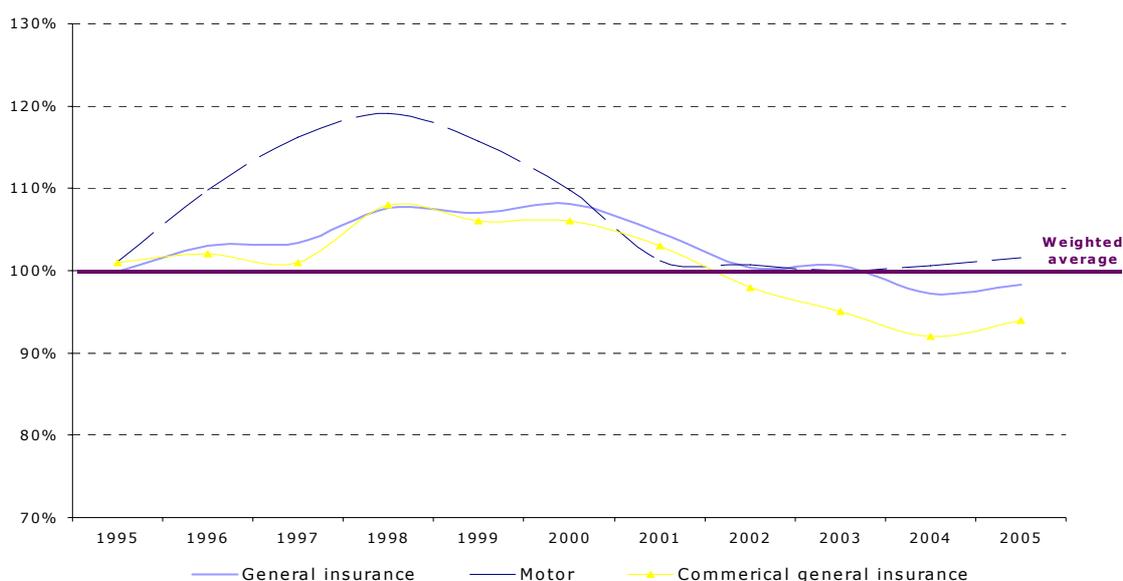
³ See, for example, Harrington and Niehaus (2000).

3.1 Combined ratios

The Commission’s report on the business insurance sector (EC, 2007) uses the combined ratio of the different lines of business in general insurance to proxy profitability measures across member states. Therefore in this section we reconsider some of the issues raised in EC (2007) by discussing the combined ratio of the UK’s commercial general insurance over the period 1995-2005.

Figure 6 shows the evolution of the combined ratio for the whole general insurance market together with the breakdown between Motor and Non-motor lines of business. The combined ratio measures the amount of earned premium that an insurance company must pay to cover the claims and expenses generated by the business.⁴ (The mathematical expression of the combined ratio can be found in Appendix A1.) A combined ratio of 100% thus means the insurance industry is breaking even on its (net) underwriting business. If the combined ratio is above 100%, the industry is making underwriting losses.

Figure 6 Combined ratios in the UK general insurance market, 1995-2005.



Note: The above figures exclude MAT. The weighted average is in turn based on net premiums over the period.

Source: Research Department, ABI.

Once again Figure 6 illustrates the importance of taking into account the full cycle of the general insurance market, which normally lasts for 6 to 9 years. The period 2004 and 2005, which relates to the data used by the Commission, stands out as exceptional. It was only in 2004 and 2005 that the UK’s general insurance market achieved underwriting profits; during the second half of the 1990s the combined ratio was above 100%, meaning the industry was making losses on its underwriting activity. **The weighted**

⁴ The combined ratio can also be calculated as one minus the underwriting result, expressed as a percentage of net premiums.

average combined ratio (based on net premium income) of both general and commercial general insurance for the period 1995-2005 equals 100%; put differently, on average the sector broke even on its underwriting business. The ABI's data confirms the EC finding that combined ratios have consistently decreased since 2000. Underlying the modest long-term performance of the business, though, is the healthy degree of competition existing in the UK insurance market.

In its business insurance sector inquiry, the Commission estimated domestic combined ratios for the period 2000-2005, and concluded that UK profitability ratios were relatively high. However most of the Commission's findings rely on 2005 data, and do not account for poor performance in previous years or the cyclical nature of insurance markets. The Commission based its conclusions on the combined ratio of a relatively profitable year, thereby concluding that business insurance displays exceptional profitability, but failed to recognise the key cyclical nature of the business. That general insurance premiums and underwriting profits fluctuate cyclically is well understood, and has been documented in a number of academic studies; see Cummins and Outreville (1987) for example.⁵

The ABI's previous analysis casts doubt on the conclusions reached by the Commission. The methodological problem is that the EC focused on a relatively profitable timeframe; taking a longer-term perspective that accounts for the underlying insurance business cycle, one finds that fierce domestic competition decreased the profitability of the underwriting business. As the other key determinant of insurance companies' profitability is investment earnings, that is the return earned on financial and non-financial assets acquired with insurance premiums, we now turn to this important source of income.

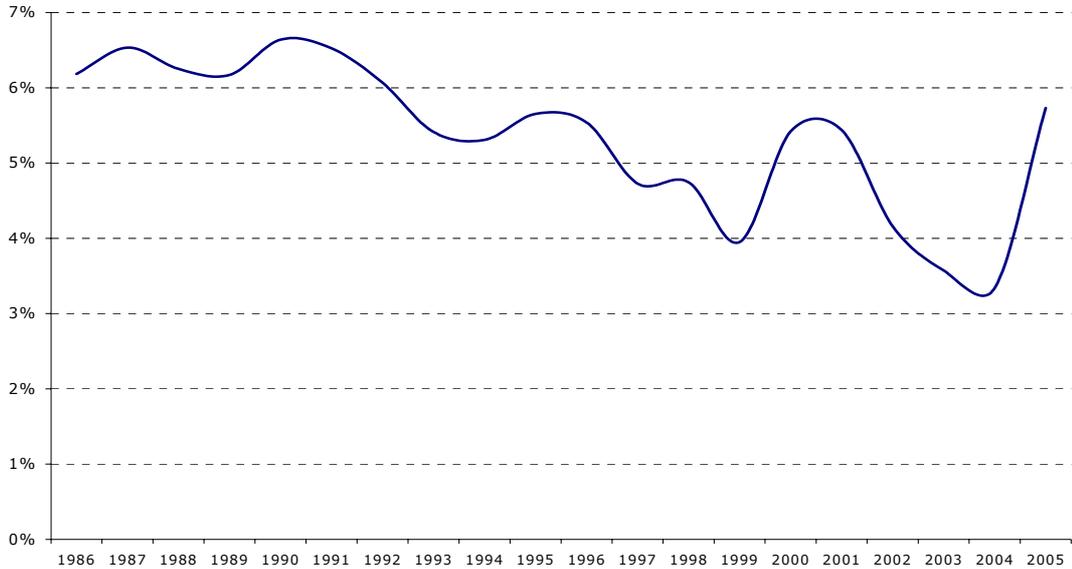
3.2 Investment income

Investment income comprises the financial returns on assets purchased with insurance premiums that are held by the company until claims and associated expenses eventually are paid. As noticed by the Commission in its interim report, investment earnings are a prominent source of revenue for insurers. In liability insurance, for example, there is a long time lag between receiving premiums and paying claims, and the accumulation of assets is thus large.

Figure 7 displays the pattern of investment returns in UK's general insurance market over the period 1986-2005, calculated as the ratio of net investment income to market value of assets. The maximum value is 6.6% in 1990, and the minimum 3.3% in 2004.

⁵ Fenn and Vencappa (2004) discuss the main analytical frameworks explaining the presence of business cycles in the insurance industry.

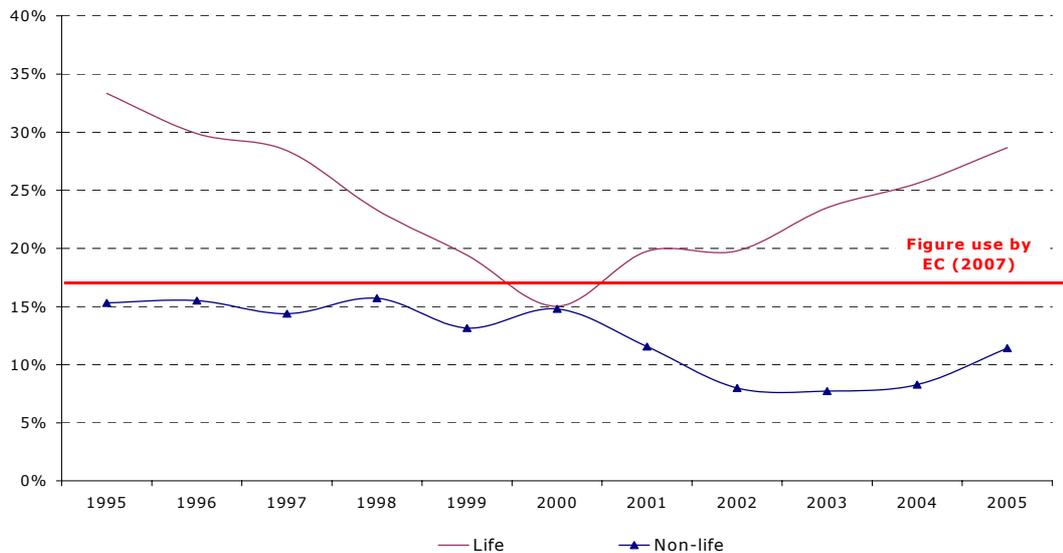
Figure 7 Investment returns on assets (% of total assets), 1986-2005.



Source: Research Department, ABI.

The Commission used combined ratios and net investment results to create a *proxy* for industry profitability. As surveyed companies were not required to provide net investment results for the purpose of the inquiry, the Commission used headline figures published in Swiss Re (2006a) to conclude that the annual net investment results of the UK non-life insurance industry over the period 1994-2004 was equal to 16.8% of the annual premium income in the UK. According to Swiss Re this figure is based on aggregate data from 100 insurance companies in the UK, and represents the simple average of the 10-year period.

Figure 8 Net investment results (net investment income over net premium income) of UK's insurance industry by segment, 1995-2005.



Source: Research Department, ABI.

As can be seen in Figure 8, the average figure used by the Commission overestimates the actual investment returns obtained by British insurers. **Effectively, the weighted net investment return of the UK general insurance industry over the period 1995-2005 turns out to be 11.8% rather than the 16.8% assumed by the Commission.** Moreover the bias in the EC estimate widens during the last 5 years.

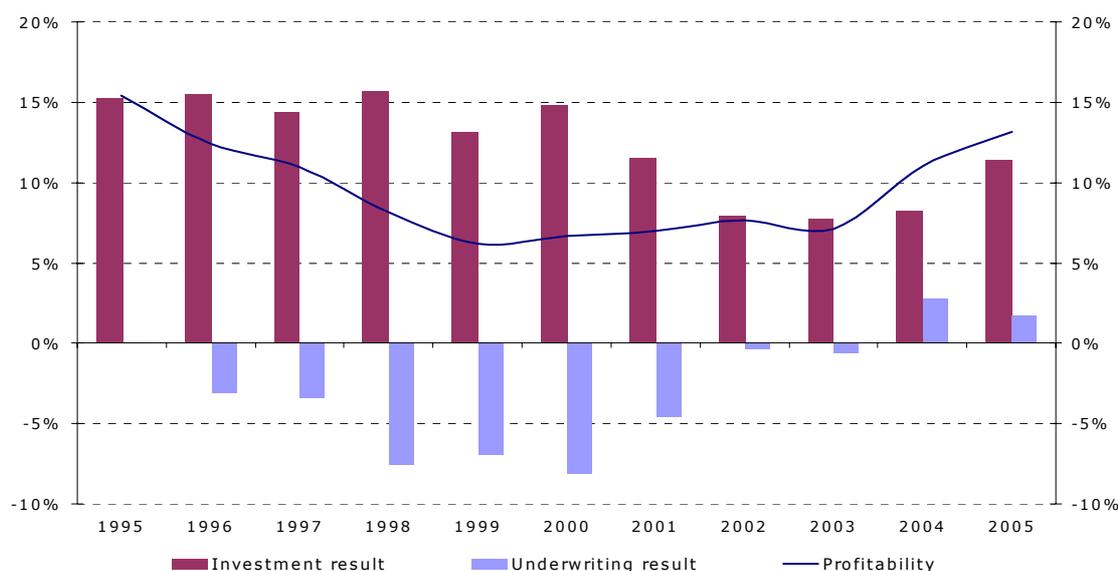
The figure of 16.8% used by the Commission, taken from the Swiss Re report, is a simple average and relates to the period 1994-2004. Yet this period was characterised by high investment returns and the collapse of the stock market in 2001. Applying this rate of return to the decade 1995-2005 is misleading, as recent investment returns are lower than those prevailing during the second half of the 1990s. This can be seen in Figure 8.

3.3 Profit margins

In the European Commission’s interim report, the assumed net investment result is added to the underwriting profitability in order to estimate pre-tax profit margins. Using this approach the Commission preliminarily concludes that the profitability is high in business insurance in the EU-25. Based on 2005 data, for example, the Commission concludes that on average the pre-tax profit in business insurance was around 26% across the three largest European insurance markets (i.e. France, Germany and the UK).

The estimates included in this paper, however, cast doubt on the accuracy of the DG Competition estimates. To illustrate, following the Commission’s methodology we summed up underwriting profitability ratios and net investment results of the UK general insurance sector to estimate the overall level of pre-tax profits. The result of our analysis is presented in Figure 9.

Figure 9 Investment results, underwriting results and pre-tax profitability of UK’s commercial general insurance market, 1995-2005.



Source: Research Department, ABI.

As can be observed, the UK insurance market seems to have gone through an almost complete business cycle during the period of time considered in Figure 9. Our conclusion is that the average profitability of British non-life insurers, calculated along similar lines to those used by the Commission, amounts to a modest 9% over the period 1995-2005

Another drawback with the profitability measure used by the Commission is that it does not account for the risk level associated with the business activity. Profits remunerate the level of risk taken on by the insurance company. In this respect, there exist economic models that allow analysts to appropriately control for the risk level faced by the insurer (e.g., return on equity by line of business, or return on risk adjusted capital).⁶

3.4 Limitations of the combined ratio as a competitive benchmark

While the combined ratio is a well-established performance measure within the insurance industry, it is worth mentioning that it represents a technical rather than a profitability indicator. To illustrate, the combined ratio does not take into account the insurer's investment income even though, in the case of some business segments, investment income may represent a significant part of the company's total income.

The combined ratio may not be a good measure to base profitability comparisons across business lines on. The reason is that it does not contemplate claim frequency: for natural catastrophes or environmental liability, for example, there may be several consecutive years without claims and a single year with a relatively large claim when compared with annual premium income. On such occasions, a myopic approach to the combined ratio may result in misguided conclusions.

As mentioned in Swiss Re (2006a), the conventional combined ratio or similar accounting-based measures present limitations for assessing the underlying underwriting profitability of insurers. In this respect, economic combined ratios are embedded with additional features that facilitate the understanding of insurance cycles and provide a more accurate estimation of insurance companies' underwriting profitability.

⁶ An alternative methodology to estimate the cost of capital, based on the Capital Asset Pricing Model, can be found in Cummins and Phillips (2005).

4.0 CONCENTRATION LEVELS

According to the economics of competition policy, profitability and concentration levels are intimately related variables. This is because control by a single (or a small number) of companies of a large portion of a given market is a *necessary* condition for the exercise of market power, that is, for the ability to raise prices above marginal cost. However, the existence of high concentration levels is a necessary but not sufficient condition for anticompetitive conduct, because low entry barriers or small switching costs for example, may make the market highly contestable. In such circumstances the ability of incumbents to raise prices above cost and make abnormally high profits, without inducing further competitive entry, is limited.

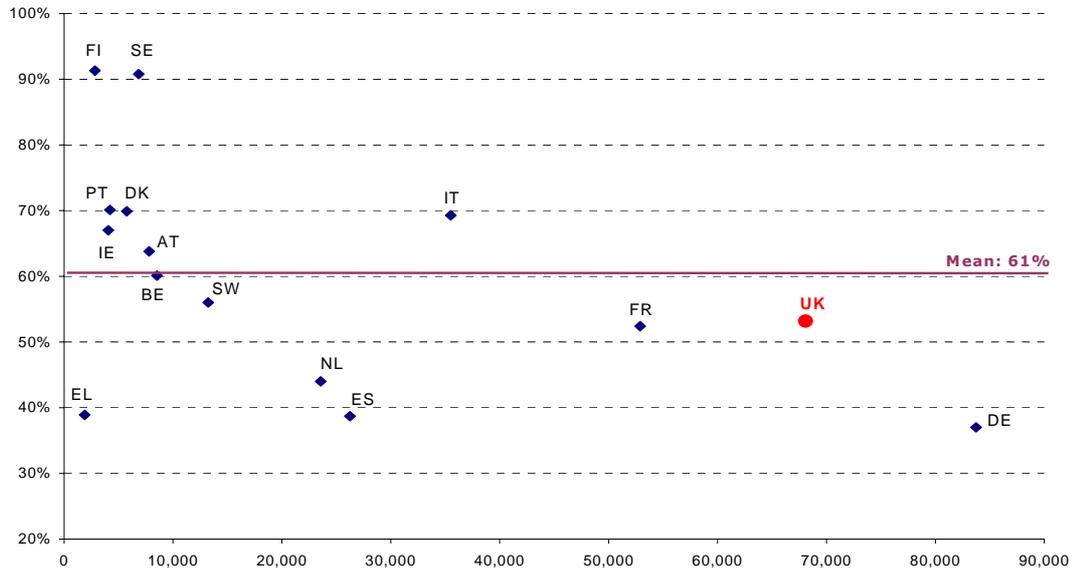
Hence in this section we examine in more detail the degree of concentration in the UK general insurance industry. In addition we compare the British market structure with that prevailing in other main European countries. The main conclusion of our analysis is that UK's insurance industry exhibits a good degree of fragmentation, both in absolute terms and in comparison with markets of similar importance across Europe. Competitive forces at the domestic level successfully curb British insurers' capacity to exercise market power to the detriment of retail and commercial customers.

4.1 Market shares in EU non-life insurance markets

Figures 10 and 11 display the combined market share of the 5 largest general insurance groups (in terms of total premiums) in 2004 and 1993, respectively. The underlying data, published by the European insurance and reinsurance federation (CEA), are in the public domain. In particular, each figure shows the combination of aggregate market share and total premiums of the top five general insurance groups across fifteen European countries. (The list of acronyms for those countries can be found in Appendix 1.) Broadly speaking, market share and total premiums of the top-5 national insurance groups seem to be inversely correlated: lower market shares are associated with larger premiums. The average market share in each year was identified as a horizontal line; as can be observed, this mean moved from 49% in 1993 to 61% in 2004.

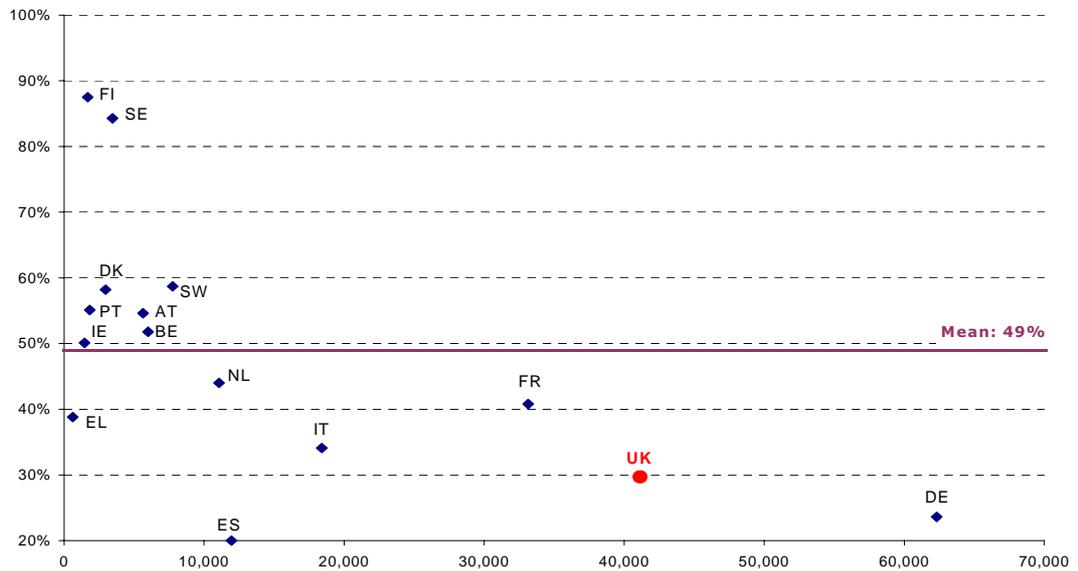
As can be seen, during the 12-year period there have been widespread increases in the fraction of the national insurance markets captured by the five-biggest players – the dots moved towards the north-east. However the fraction of the domestic market captured by the UK five largest non-life insurance groups remained relatively low from an international perspective. Effectively, the UK falls below the mean (and median) market share on both occasions.

Figure 10 Market share (%) and total premiums (Euro million) of the 5 largest general insurance groups in 2004 – 15 European countries.



Source: CEA (2006).

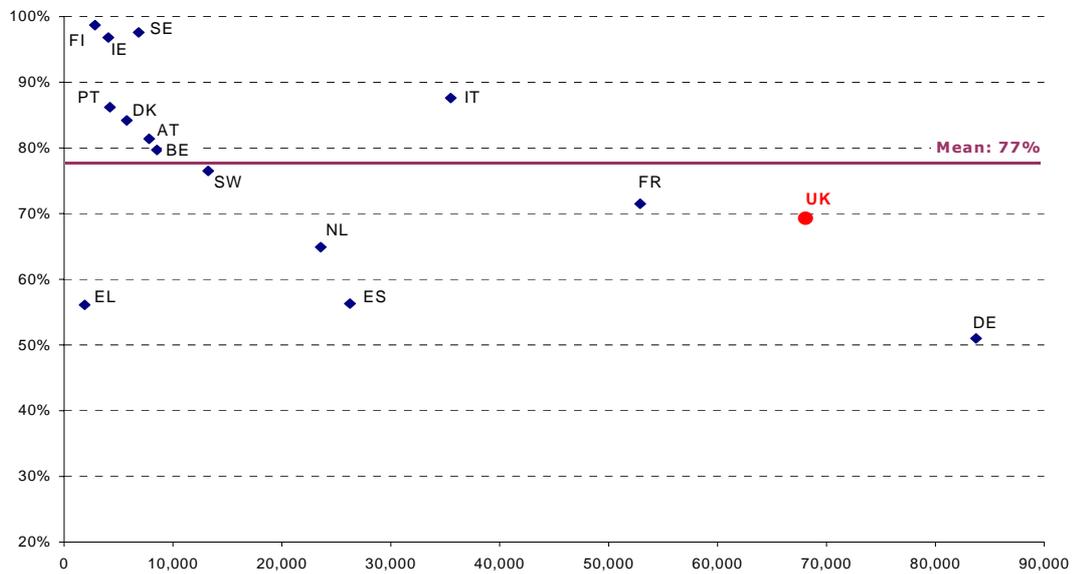
Figure 11 Market share (%) and total premiums (Euro million) of the 5 largest general insurance groups in 1993 – 15 European countries.



Source: CEA (2006).

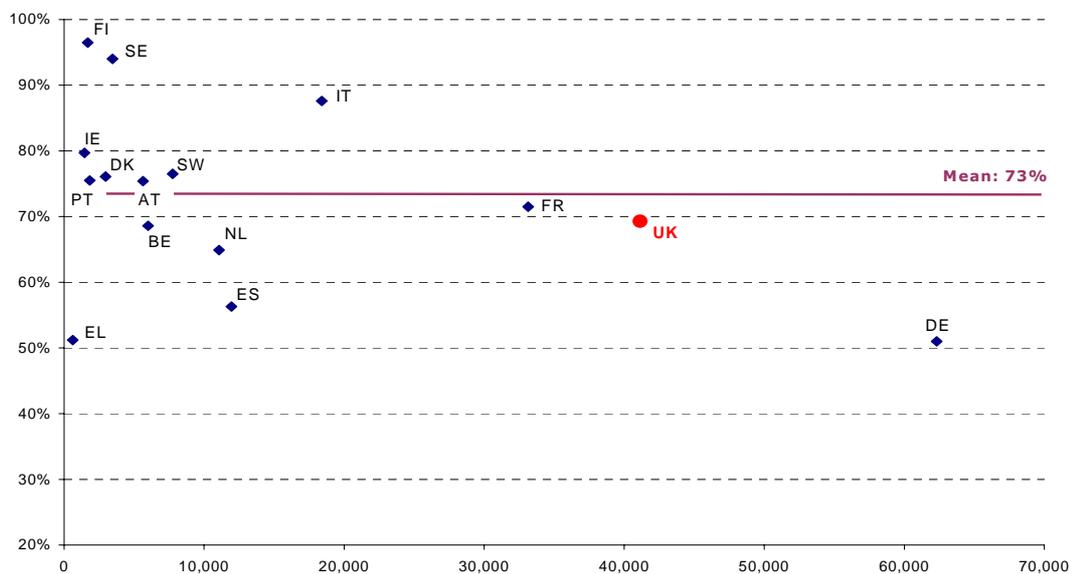
A roughly similar albeit less dispersed picture emerges when one looks at the combined market share of the 10 largest general insurance groups across these European countries. This can be seen in Figures 12 and 13, which show the combination of market share and total premiums controlled by the top-10 national groups in 2004 and 1993, respectively. The average market share in 1993-2004 increased from 73% in 1993 to 77% in 2004. Again, the UK lies below the mean (and median) market share on both occasions.

Figure 12 Market share (%) and total premiums (Euro million) of the 10 largest general insurance groups in 2004– 15 European countries.



Source: CEA (2006).

Figure 13 Market share (%) and total premiums (Euro million) of the 10 largest general insurance groups in 1993– 15 European countries.



Source: CEA (2006).

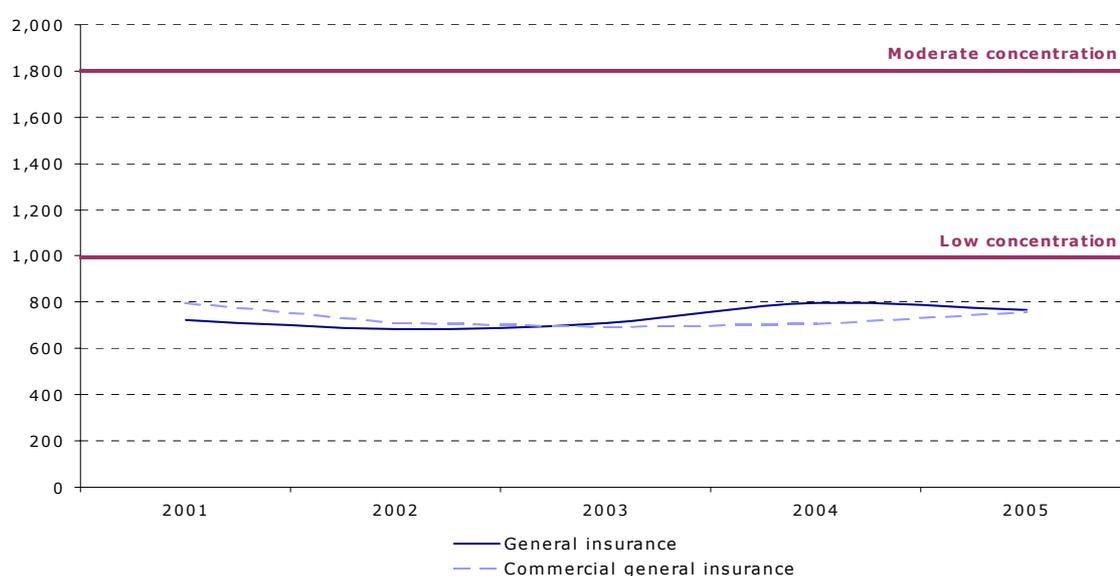
4.2 Concentration ratios in EU non-life insurance markets

While aggregate market shares are informative, a more standard measure of the level of fragmentation in an oligopolistic industry is the Herfindahl-Hirschman Index (HHI). Indeed

this index is the concentration metric most often used in competition policy analysis on both sides of the Atlantic; see, for example, Motta (2004). The HHI is given by the sum of the squares of market shares of the firms in the industry, and so theoretically it can vary between 0 (an entirely fragmented market where each firm has a negligible fraction of the market) and 10,000 (a monopoly where a single firm serves 100% of the market). Thus the lower the HHI, the more fragmented the market.

Estimating the market share of each single company in the industry often proves difficult owing to lack of information. Unfortunately we also faced this constraint in the case of the UK. Yet Figure 14 presents the evolution between 2001 and 2005 of the HHI based on the market shares (based on net written premiums) of the top-15 UK general insurers. This concentration index is not perfect, but it nevertheless represents a good approximation because the underlying insurance companies generated at least 80% of the net written premiums stemming from general business insurance in each year. As can be observed, throughout the period 2001-2005 the 15-company HHI for the general insurance market remained below the threshold values of 1,000 (low concentration) and 1,800 (moderate concentration) considered by US Merger Guidelines.

Figure 14 HHI of general insurance based on market shares of the 15 largest UK insurers, 2001-2005.

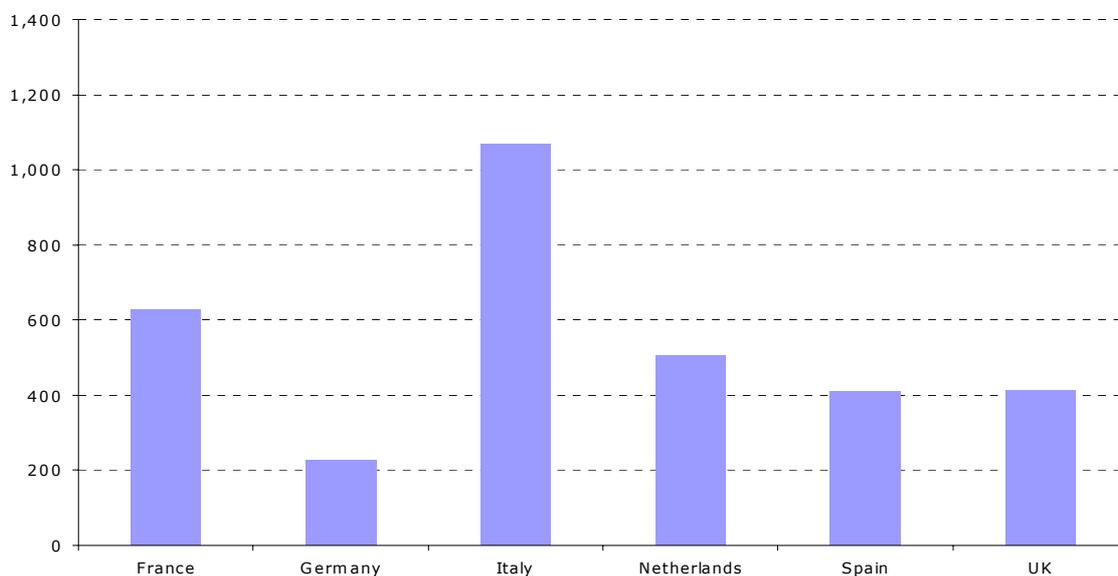


Source: Research Department, ABI, based on CEA data.

To put the above UK concentration figures into international perspective, in Figure 15 we display the HHI based on the market shares of the five largest general insurance groups in France, Germany, Italy, Netherlands, Spain and the UK in 2003.⁷

⁷ The values for 2004 look broadly similar although the CEA could not provide us with information for Germany and The Netherlands.

Figure 15 HHI of general insurance based on market shares (gross premiums) of the 5 largest non-life insurers, 2003.



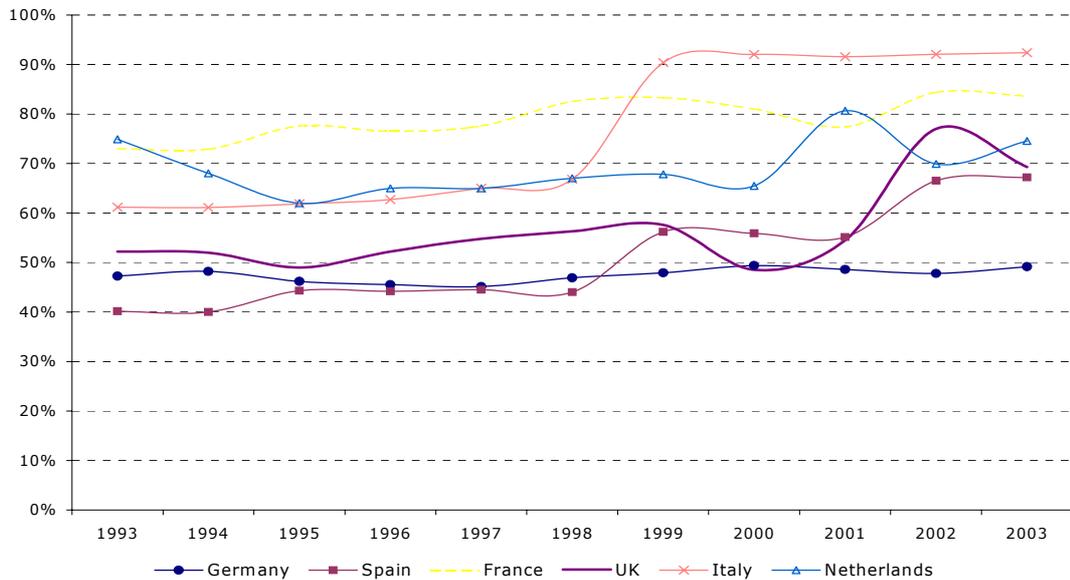
Source: Economics & Statistics, CEA.

We have focused on these six countries because they are among the most important ones within Europe in terms of general insurance premiums. As an example, according to Swiss Re (2006b) these 6 countries comprise around 75% of the total general insurance premiums written in Europe and account for about 27% of the worldwide general insurance premium income in 2005. The concentration measures shown in Figure 15, which are in turn based on gross written premiums published by the CEA, suggest the UK insurance industry remains relatively fragmented even when compared with European markets of similar size.

The above analysis only provides a snapshot of the level of concentration across different European countries at a specific point in time. To have a more dynamic picture, however, Figure 16 illustrates the evolution of the joint market share of the 15 largest non-life insurance groups in each of our 6 European countries between 1993 and 2003. For this exercise we used joint market shares rather than concentration indexes because we were not able to access data on individual market shares for this 10-year period.

As can be observed in Figure 16, there was an upward shift in concentration levels across the main European countries. Despite this, the bottom-up ranking of countries in terms of total share of the domestic market controlled by the top-15 insurers has not changed significantly within the decade – only German and Spanish general insurance groups exhibit lower market shares than British groups.

Figure 16 Market share of the 15 largest general insurance groups, 1993-2003.



Source: Economics & Statistics, CEA.

4.3 Entry barriers (and how regulation affects them)

Purchasers of general and health insurance products in the UK benefit from market regulation and scrutiny by the Financial Services Authority (FSA). This ensures certainty and fairness to insurance customers. EU Directives, which have been transposed into national law, give passport rights to several types of financial services firms, including life and general insurance.

Statutory regulation of the sale and administration of the general insurance market was originally introduced to implement two EU Directives – the Insurance Mediation Directive and the Distance Marketing Directive. In 2005 general insurance came under the regulatory remit of the FSA, which for example sets rules concerning the information insurers provide to their customers in the sales process. The FSA’s regulatory framework covers three insurance sectors:

- Retail general insurance, such as household, motor, and travel;
- Commercial general insurance, such as employer’s liability, property and business continuity; and
- Health protection insurance, such as private medical, critical illness and income protection.

Research undertaken by the ABI found that most customers of general insurance products expressed increased confidence in making an insurance purchase as a result of the new regulatory regime [ABI (2006), CRA (2006)]. While the FSA rules implementing the EU Directives appear as overly prescriptive, existing evidence suggests that some customers buying more complex general insurance products have benefited from enhanced disclosure rules. The competitive atmosphere prevailing in the UK general and health insurance markets seem to be working well for customers.

5.0 CONCLUSION

The ABI believes the Commission is correct to place the business insurance policyholder at the centre of the business insurance inquiry. However, the empirical analysis contained in this document challenges the Commission's conclusions regarding combined ratios and profitability of the business insurance sector. In particular we find the UK's general insurance sector made modest profits and on average broke even on its underwriting activity over the business cycle.

Our analysis demonstrates that the net investment return of the UK general insurance industry over the period 1995-2005 was 11.8% rather than the 16.8% assumed by the Commission. This implies the Commission's interim report substantially overestimated both investment returns and industry profitability over its period of analysis. We conclude the profitability of British general insurers, using the same methodology as the EC, was on average a modest 9% for the period 1995-2005.

Finally, the different concentration measures presented throughout this paper, which are based on data published by the CEA, suggest the UK insurance industry remains relatively fragmented even when compared with European markets of similar size. UK concentration levels remained low during the last 10 years. All this appears to indicate that there is an absence of market power and market failure in the business insurance industry.

A1 DEFINITIONS

A1.1 Underwriting results

The underwriting result (UR) is the net premium income less the cost of claims and the insurer's expenses in connection with the specific business line. It can also be expressed as a percentage of the net written premium:

$$UR_j = \frac{NP_j - (C_j + E_j)}{NP_j},$$

where the subscript refers to the business line, NP stands for net earned premiums, and C and E represent claims and expenses payouts, respectively.

A1.2 Combined ratios

The combined ratio (CR) represents the fraction of premium income that an insurer must pay to cover the claims and expenses generated by the business. More formally;

$$CR_j = \frac{C_j + E_j}{NP_j}.$$

A1.3 Acronyms for countries

The acronyms for European countries used in this document are the following:

AT – Austria	IE – Ireland
BE – Belgium	IT – Italy
DE – Germany	NL – The Netherlands
DK – Denmark	PT – Portugal
EL – Greece	SE – Sweden
ES – Spain	SW – Switzerland
FI – Finland	UK – United Kingdom
FR – France	

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