

# European Commission Report on competition in the Business Insurance sector

## **AIRMIC Positions**

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This paper sets out the AIRMIC position in respect of the questions asked in the Interim Report of the "Sector Inquiry into Business Insurance" published by the Competition Directorate of the European Commission in early 2007.

### Consultation Question

### Summary of AIRMIC Position

#### **Discrepancy of combined ratios**

1. Are there compelling justifications for the apparent discrepancy in the level of combined ratios of SMEs and LCCs observed in some parts of the EU-25?

**AIRMIC believes that there are no compelling justifications for this discrepancy, although it may be the case that LCCs have better risk management and are therefore able to present their risks more effectively to the insurance market. However, AIRMIC has little direct contact with SMEs as the AIRMIC membership is almost exclusively LCCs.**

#### **"Best terms and conditions" clause**

2. How widespread is the use of the so-called "best terms and conditions" clause in the reinsurance and in the co-insurance markets? Where does this type of clause originate?
3. At what stage in negotiation does this type of clause appear and which/how many participants ask for its introduction?
4. How is the clause enforced?
5. What is the effect of this type of clause on the market?

**AIRMIC members encounter this practice quite often, especially in the Lloyd's market. It is custom and practice in many circumstances and does not appear to work to the detriment of the insured. Experienced buyers are aware of the issues and can often obtain better terms as a result of this practice.**

**When a broker takes a risk into the Lloyd's market, it is not unusual for the broker to report to the insured (AIRMIC member) that the first line on the slip has been obtained, but broker does not think that it will be possible to "finish the slip" at the price quoted.**

**AIRMIC members do not get involved in the enforcement. The broker advises the insured of the price at which the slip was completed.**

**AIRMIC is not seeking the abolition of the "best terms and conditions" clause, because of the arrangements in the Lloyd's market, which often work to the overall benefit of the insured. LCCs require multiple insurers on the same layer of a complex insurance program and the "best terms and conditions" clause can facilitate this arrangement.**

## Consultation Question

## Summary of AIRMIC Position

### Long-term agreements

6. Have you experienced that the duration of insurance contracts represented a barrier to entry for insurers wishing to penetrate new markets and/or acquire new customers? Please explain your answer also taking into account the existence of termination and of automatic renewal/extension clauses.
  
7. Have you experienced that the duration of insurance contracts was a serious obstacle for switching to a different insurer? Please explain your answer also taking into account the existence of termination and of automatic renewal/extension clauses.

**Many AIRMIC individual members have reported to AIRMIC that they favour LTAs and this option should continue to be available. AIRMIC itself does not believe that the existence of LTAs is a barrier to entry for insurers wishing to penetrate new markets and AIRMIC has no strong views on this matter.**

**Many AIRMIC individual members favour LTAs and usually negotiate suitable review clause into the LTA, so that the LTA does not become a serious obstacle to switching to a different insurer.**

### Intermediaries' remuneration

8. To what extent do independent insurance intermediaries (brokers and multiple agents) disclose remuneration paid by insurers (i.e. commissions, contingent commissions including profit commissions, fees for services provided and other payments) to their insurance broking clients?

**AIRMIC members obtain disclosure of remuneration paid to intermediaries by insurers. AIRMIC strongly believes in full disclosure of intermediaries' remuneration. It should occur automatically and for all clients, regardless of the size of the insured. AIRMIC supports full disclosure of intermediary remuneration in all circumstances and would welcome EU support on this principle, so that national regulators can then take the initiative forward in a manner that best suits local circumstances.**

### Commission rebating

9. In your Member State, do independent insurance intermediaries rebate commissions to their clients? How common is this practice for SME clients? How common is it for LCCs?
  
10. Are there any agreements between insurers and independent intermediaries not to rebate commissions to insurance broking clients? Are there any other practices that would discourage independent insurance intermediaries from rebating commissions to insurance broking clients?

**AIRMIC members prefer to operate on a fee basis. All types of commissions paid to brokers should always be disclosed, although AIRMIC prefers that such commissions are not paid. If commissions are paid, this should be taken into account when evaluating and disclosing broker remuneration. There should be no restrictions on the rebating of such commissions to the insured.**

**AIRMIC members do not have extensive experience of such rebate commissions, but believes that they should not be a routine feature of the commercial insurance market. Where they do exist, then they should be fully disclosed with no restrictions on rebating commissions to clients.**

## Consultation Question

## Summary of AIRMIC Position

### Horizontal cooperation

11. The inquiry's data concerning the various forms of cooperation among insurers shows substantial differences among Member States. How can these differences be explained?

**AIRMIC is not in a position to explain the differences between member states.**

12. Which sorts of benefits have you experienced, as a business insurance customer, from the forms of cooperation among insurers described in the present Report?

**AIRMIC members benefit from joint coverage of risks and from horizontal cooperation on technical issues. The development of standard policy wordings is believed by AIRMIC to be beneficial, as long as this does not extend to the point where horizontal cooperation on exclusions and exemptions acts to the detriment of the insured. AIRMIC members do not believe that joint calculations and studies are commonplace in the London market. Therefore, AIRMIC members do not believe that they suffer from the anti-competitive consequences of this latter type of horizontal cooperation. In general terms, AIRMIC does not have a firm view on the block exemption and neither supports the block exemption in its current form nor calls for its complete repeal. Given that it does not expire until 2010, it may be as well to undertake a review nearer to that time.**

13. As a business insurance customer, have you ever experienced that the forms of cooperation among insurers described in the present Report were hindering competition?

**AIRMIC does not believe that the forms of horizontal cooperation described in the report have hindered competition within the markets where AIRMIC members place most of their insurance business.**

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