

# IMIA Conference Gleneagles - 13<sup>th</sup> to 17<sup>th</sup> September 2008

## How the Local Market Works - Great Britain (GB)



**Willis**

# 1. GB Insurance Market – General

- Arguably one of if not **the** oldest insurance market in the world
- Non-life market is third largest in the world (after the US and Japan) and is approaching USD 100 Billion premium
- 3 distinct components (although with overlap)
  - Primarily London based UK domestic
  - Regional UK domestic
  - International (Primarily London based)

# 1. GB Insurance Market – General

- “London Market” is a global leader for various classes of insurance e.g. Market Share of 50% for Energy, 40% for Aviation and 12.5% for Industrial
- Very limited barriers to market entry – and no tariffs!

# 1. GB Insurance Market – General

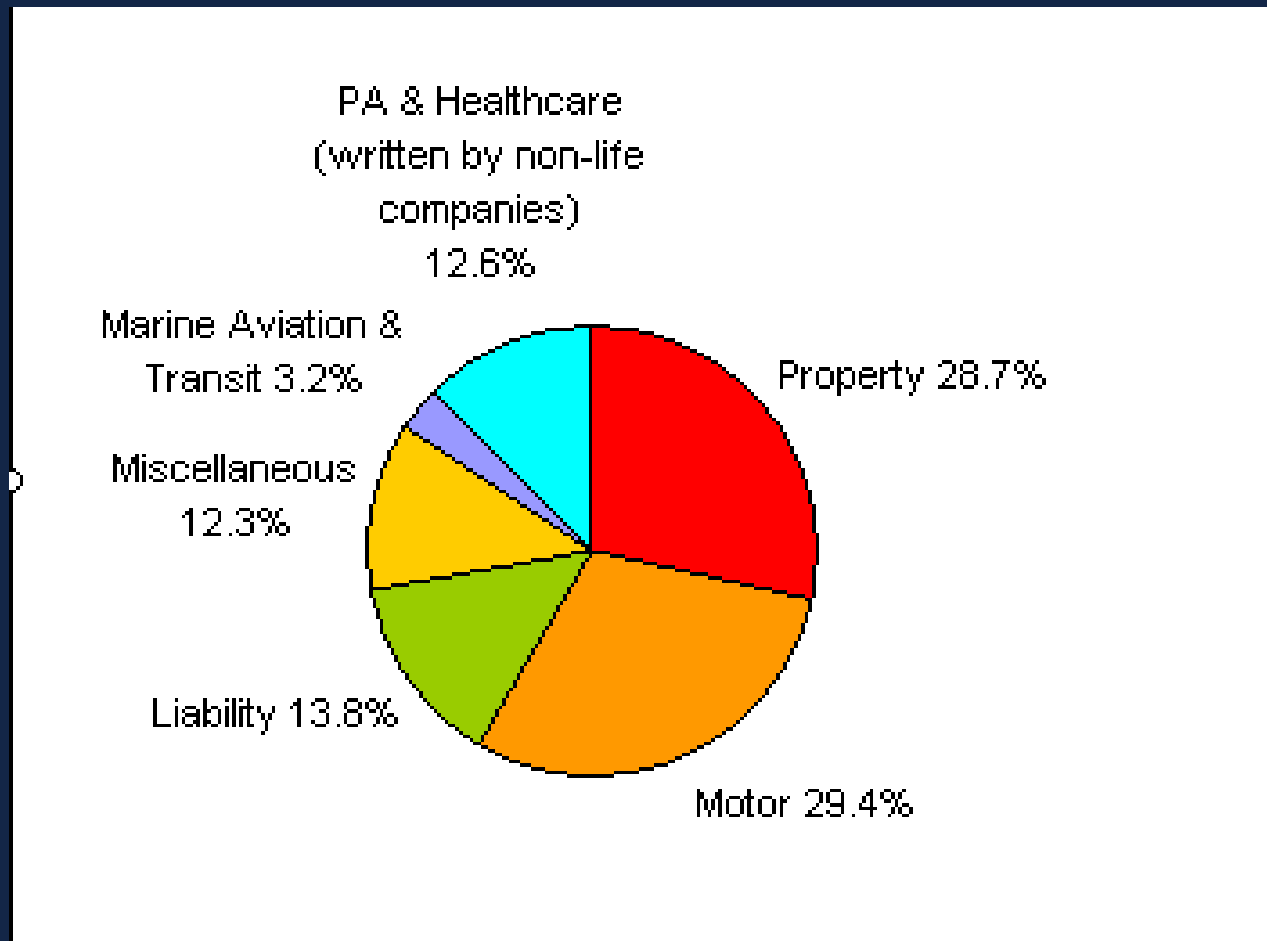
- Brokers are an established market feature, in-house brokers less common than elsewhere in Europe (e.g. Germany), “direct” business less than 20% of premium volume in industrial/commercial sector
- Relatively little regulation of the market up until the collapse of a major insurer (the Independent) and in 2001 the Financial Services Authority (FSA) assumed full regulatory power over the market
- Now amongst the most highly regulated insurance markets in the world

# 1. GB Insurance Market – General

- Compliance, Contract Certainty, Market Reform Contracts (MRC) etc - “slips” are a thing of the past!
- 1990’s saw declining profitability and market consolidation, ultimately leading to a “hard” market in the early 2000’s, galvanized by the tragic events of 9/11/2001
- Lloyd’s remains a unique feature to the UK market, although smaller “bourses” exist, such as in the Netherlands

# 1. GB Insurance Market – General

## Premium Split



# 1. GB Insurance Market – General

- Co-insurance a major feature on larger placements, but now under threat based up latest EU thinking!
- Relatively low “CAT” risks **but** flooding, windstorm and to a lesser extent earthquake are primary risks of aggregation losses
  - Windstorms in 1987 and 1990 (approx USD 500m in insured losses)
  - Flooding (coastal and localised) considered an increasing risk with an event PML of over USD 2,000,000,000
  - September 2002 saw an Earthquake of 4.8 RS and a Swiss Re PML estimate from EQ (+1/1000 years) is around USD 12,000,000,000!
- According to the ABI, there are almost 900 composite/non-life insurers authorised to write business in GB

# 1. GB Insurance Market – General

	Composites	General
UK companies	22	412
UK branches of EEA companies (UK supervised)	4	64
EEA companies (home state control)	22	301
Non-EEA companies	2	59
<b>Total</b>	<b>50</b>	<b>836</b>

- Lloyd's is a major part of the GB market, both for domestic and international risks
- Many insurers now have a Lloyd's operation as it brings a number of benefits, not least of which being access to direct insurer licensing in a multitude of countries



## 2. The UK Construction Industry – In Brief

- Annual total volume approx USD 160 Billion (2007)
- Growth now lower than previously predicted due to economic concerns domestically and globally
- Drop of 1.3% predicted in 2008
- Housing construction worse hit, followed by commercial development (e.g. delayed commencement of “the cheese grater” 224.5m skyscraper close to Lloyd’s)
- No significant recovery expected until at least late 2009/early 2010

## 2. The UK Construction Industry – In Brief

- Represents +/- 6% of the GDP and GB's largest industry
- PFI/PPP a major feature, although reducing in importance
- Bright spots include the construction works associated with the Olympics (USD 5.3Bn), Crossrail (USD 30Bn!) and the Thames Gateway Desalination Plant (USD 400m)
- No UK contractors in Europe's top 10

### 3. GB Engineering/Construction Market

- 30 market players – most of whom underwrite at least some International business in addition to domestic
- Premium volume approx USD 1,200,000,000 based on ABI figures
- Public Liability – and certainty Employers Liability – often written separately to the EAR/CAR, especially on annually renewable policies
- PML capacity (nett + treaty) approx USD 2,000,000,000

### 3. GB Engineering/Construction Market

- Broader wordings than in most other markets has long been a feature of the GB market, for both domestic and international risks
- Domestic loss results suffered **dramatically** in the early 1990's
  - Broadgate Fire (1990) USD 120m
  - Minster Court Fire (1991) USD 160m
  - Heathrow Airport Express (1994) USD 200m
- A much “harder” domestic market and introduction of such measures as the “Joint-Code of Practice for Fire Prevention on construction sites” resulted

### 3. GB Engineering/Construction Market

- Domestic risks rating remained “high” (compared to most other local markets) throughout the mid/late 1990’s and into the early 2000’s but have generally lowered considerably since hitting their peak in 2004
- There has been a huge increase in CAR/EAR markets opening (or re-opening) in London during the past few years – almost doubling the number of players

### 3. GB Engineering/Construction Market

- Much of the new capacity is primarily concentrated on domestic and European business
- Provision of full and detailed underwriting information is a pre-requisite to obtaining firm quotations and Lead/Support capacity