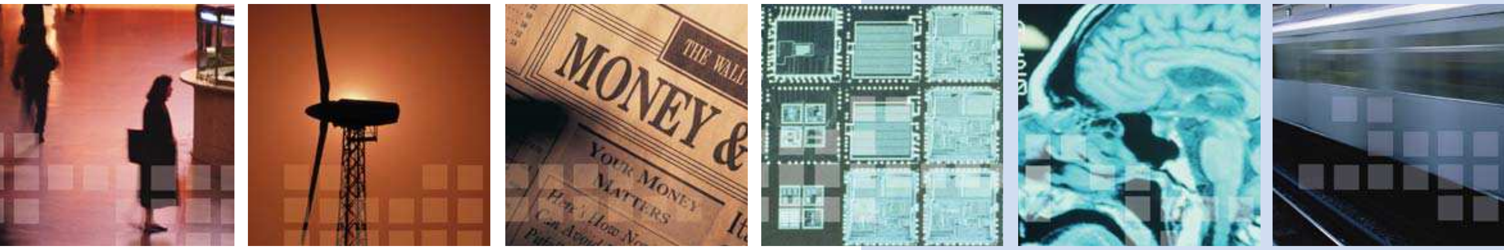

A Datamonitor report

UK Commercial General Insurance 2006

A comprehensive analysis of the UK commercial general insurance sector

Published: Feb-07 Product Code: DMFS1991

Providing you with:

- **GWP growth and profitability data** for the key sectors of the commercial insurance market
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Introduction

This report is an indispensable guide to the commercial general insurance sector in the UK. It focuses on group accident and health, general liability, motor, pecuniary loss and commercial property markets. The report includes a wide variety of information pertinent to the sector including market sizing information, distribution channel splits, competitor premium and market share information and Datamonitor's unique forecasts of premium income by line of business.

Key findings and highlights

- Retailers and affinity groups continue to occupy only a small space in the commercial insurance distribution landscape. While organizations within this category have had major success in selling personal lines insurance, they are hampered in commercial lines because of the clients' need for advice during the purchase
- In December 2006, Australian insurer Insurance Australia Group (IAG) bought the Equity Group, which consists of Equity Red Star and Equity Insurance Brokers.
- imarket added two new carriers to the system in 2005 and 2006. In August 2005, NIG signed up to imarket stating that it would initially offer SME packages and motor trader cover.

Reasons to buy

- Develop your business planning using Datamonitor's GWP forecasts and analysis for the major commercial lines of business
- Benchmark the underwriting performance of the insurers featured
- Understand the key issues affecting the distribution of commercial insurance products

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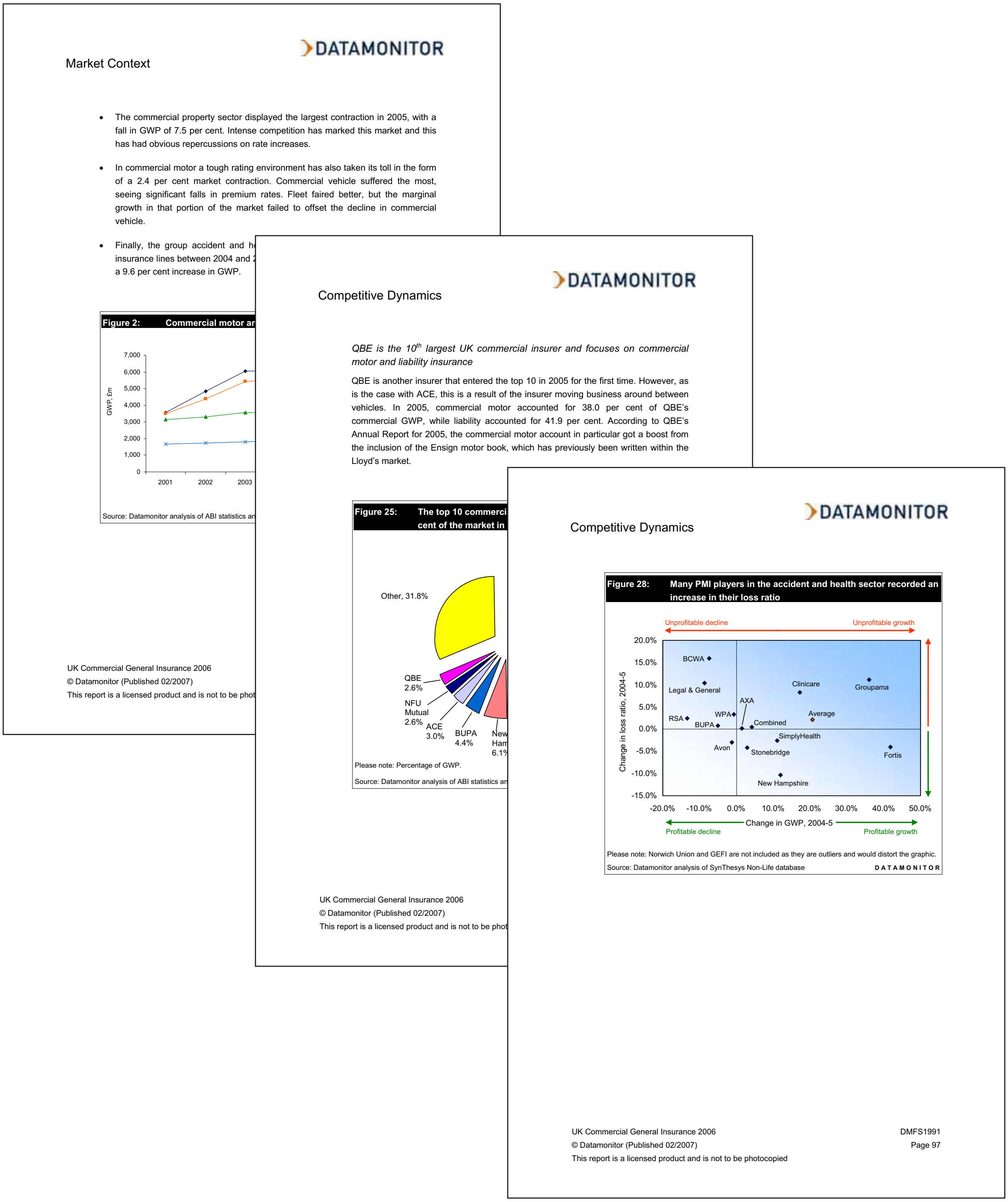

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Market Context

- The commercial property sector displayed the largest contraction in 2005, with a fall in GWP of 7.5 per cent. Intense competition has marked this market and this has had obvious repercussions on rate increases.
- In commercial motor a tough rating environment has also taken its toll in the form of a 2.4 per cent market contraction. Commercial vehicle suffered the most, seeing significant falls in premium rates. Fleet faired better, but the marginal growth in that portion of the market failed to offset the decline in commercial vehicle.
- Finally, the group accident and he insurance lines between 2004 and 2 a 9.6 per cent increase in GWP.

Figure 2: Commercial motor ar

Source: Datamonitor analysis of ABI statistics ar

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Competitive Dynamics

QBE is the 10th largest UK commercial insurer and focuses on commercial motor and liability insurance

QBE is another insurer that entered the top 10 in 2005 for the first time. However, as is the case with ACE, this is a result of the insurer moving business around between vehicles. In 2005, commercial motor accounted for 38.0 per cent of QBE's commercial GWP, while liability accounted for 41.9 per cent. According to QBE's Annual Report for 2005, the commercial motor account in particular got a boost from the inclusion of the Ensign motor book, which has previously been written within the Lloyd's market.

Figure 25: The top 10 commerci cent of the market in

Please note: Percentage of GWP.

Source: Datamonitor analysis of ABI statistics ar

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Competitive Dynamics

Figure 28: Many PMI players in the accident and health sector recorded an increase in their loss ratio

Please note: Norwich Union and GEFI are not included as they are outliers and would distort the graphic.

Source: Datamonitor analysis of SynThesys Non-Life database DATAMONITOR

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"...2006 also saw the launch of a start-up underwriting agency, originally called Insynergy, led by NIG's former Commercial Managing Director, Charles Earle, and Commercial Director, Lyn Carslake..."

Andrew Birkett, UK Commercial General Insurance 2006

- **The pecuniary loss market grew rapidly in 2005 and although profitability fell, it still returned a healthy underwriting result**
  - The pecuniary loss market was worth £5.5 billion in 2005
  - Although the underwriting result dropped in 2005, pecuniary loss remains a profitable line
  - The market share and premium income of non-ABI companies and Lloyd's syndicates grew in 2005
- **Following a significant slowdown in 2004, the property market went into decline in 2005 due to the performance of commercial property**
  - The market's overall decline resulted from a 7.5 per cent fall in commercial property GWP
  - Property underwriting profits fell slightly in 2005, as the effect of increased competition began to have an impact
  - The commercial property underwriting result fell by 38.6 per cent in 2005
  - Lloyd's and other non-ABI companies accounted for an increasing share of the property insurance

CUSTOMER FOCUS

- **Commercial insurance is largely distributed through intermediaries, however, there are signs of growth in other channels**
  - Brokers still dominate the distribution of commercial lines insurance
  - Direct insurers hold a relatively small share of the commercial market, however, growth is expected to pick up in terms of policy numbers
  - Banks and building societies remain small players in the commercial insurance market
  - There is potential for retailers and affinity groups to grow their market share, however, this is limited by the need for advice
- **imarket makes interactions between insurers and brokers more efficient and further progress is expected in the coming years**
  - imarket is an internet portal for brokers that allows multiple quotes to be generated from one application form
  - imarket added two new carriers in 2005 and 2006
  - Further integration with software houses would benefit imarket

COMPETITIVE DYNAMICS

- **Introduction**
- **Merger and acquisition interest among insurers was muted in 2006, but three new start-up underwriting agencies entered the market**
  - M&A activity was muted among insurers, though failed bids and speculation show insurers' continued interest
  - A few deals were made in 2006 involving Lloyd's insurers
  - Acquisition activity has been more common among brokers
  - Three new start-up underwriting agencies entered the commercial insurance market in 2006, targeting the SME sector
- **A continued focus on cost reductions led to job cuts and offshoring in 2006**
  - 2006 saw a number of high profile UK job cuts as insurers continued to move jobs abroad
  - Brokers are also showing interest in offshoring
- **The top 10 commercial insurers control almost 70 per cent of the market**
  - The three largest commercial insurers RSA, Norwich Union and Zurich all have substantial property, commercial motor and liability accounts
  - AXA and Allianz emphasize the strong competition in commercial lines, but saw growth in selected areas
  - New Hampshire, BUPA and NFU Mutual are specialist commercial lines insurers
  - ACE and QBE were number eight and ten in the ranking of UK commercial insurers in 2005
- **Among commercial insurers ranked 11-20 some insurers are growing quickly, suggesting that they may one day threaten the position of the top 10**
- **For most of the top 10 commercial insurers commercial business is the most important line**
  - The commercial book dominates for all but one of the top 10 insurers that focus on both commercial and personal lines
  - Two of the top 10 commercial lines have no personal book to speak of
  - Norwich Union is the only insurer among the top 10 for which personal lines dominates
- **Profitability declined in the accident and health market, driven by increases in loss ratios in particular**
  - Changes in FSA reporting categories have affected accident and health ratio comparisons
  - Many accident and health insurers saw loss ratios increase in 2005, but a clear divide is emerging between PMI and accident insurance specialists
  - Expense ratios rose by 3.0 per cent in 2005, with accident specialists driving this increase

“...AXA is the fourth largest commercial insurer in the UK, and recorded a premium income of £1.4 billion for commercial lines in 2005....”

Andrew Birkett, UK Commercial General Insurance 2006

- The combined ratio of the top A&H providers rose by 5.3 per cent in 2005, with the majority of PMI and accident providers contributing to this performance
- **Liability insurers recorded improvements in profitability in 2005, as many insurers combined premium income growth with a reduction in combined ratio**
  - Changes in FSA reporting categories have affected liability ratio comparisons
  - Over half of the top 20 liability insurers increased their premium income in 2005, with the majority also experiencing reductions in loss ratio
  - The majority of liability insurers saw increases in their expense ratios in 2005
  - Over half of the top 20 liability insurers improved their profitability in 2005, athough reporting has had an impact on these figures
- **Soft market conditions led to both falling premiums and reductions in profitability for many of the top 20 motor insurers**
  - The loss ratio of the top 20 motor insurers increased in 2005 and soft market conditions were evident as many companies suffered declining premium income
  - The expense ratio of the top 20 motor insurers saw a small deterioration in 2005
  - Soft market conditions led many insurers with a combined ratio already over 100 per cent to suffer further reductions in profitability
- **Pecuniary loss is a profitable line with an average combined ratio below 100 per cent however, high expense ratios are a problem for a sub-group of insurer**
  - Changes in FSA reporting categories have affected pecuniary loss ratio comparisons
  - In general the loss ratio for pecuniary loss is lower than other lines
  - The influence of the expense ratio or the loss ratio on pecuniary loss insurers' profitability varies depending on their main line of business
  - Just over half of the top 20 pecuniary loss insurers recorded underwriting profits in 2005, making it a profitable business overall
- **Property insurance operating conditions improved slightly in 2005, although many players saw their combined ratios increase**
  - The loss ratio of the top 20 property insurers improved in 2005
  - The expense ratio of the top 20 property insurers increased by 1.8 percentage points in 2005
  - The combined ratio of the top 20 property insurers fell marginally by 0.4 per cent in 2005, driven by the performance of just under half of this peer group

FUTURE DECODED

- **Introduction**
- **The total commercial market will grow at a steady pace driven largely by the commercial liability sector, while group accident and health and commercial pecuniary loss are set to see steadier growth**
  - The commercial liability market and the commercial pecuniary loss market are forecast to see the fastest growth between 2006 and 2011
  - Group accident and health and commercial motor are forecast to see steady growth
- **The accident and health market will record slow growth, as the group sector continues to outperform the individual sector**
  - The group sector will manage to sustain marginal policyholder number growth, while increases in premium inflation are recorded
  - The group accident and health market is forecast to grow by a compound annual rate of 4.8 per cent between 2006 and 2011
- **Liability is expected to remain competitive until the end of 2007, after which GWP growth is forecast to pick up**
  - Competition continued to dominate the liability market in 2006, putting pressure on premium rates
  - The turn of the cycle is expected in late 2007
- **Commercial motor GWP is expected to recover in the second half of 2007, with stronger growth to come**
  - Rate increases are expected to lead to an improvement in operating conditions in the commercial motor market
  - The commercial motor market is forecast to reach a value of £4.1 billion by 2011
- **The commercial pecuniary loss market is forecast to grow to a value of £1.7 billion by 2011**
  - The forecast for pecuniary loss is based on historical trends
  - The commercial pecuniary loss market is forecast to grow by 10.0 per cent on a compound annual basis between 2006 and 2011
- **The commercial property market is seeing price competition, however it is expected to turn in 2008 and reach a value of £5.5 billion by 2011**

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APPENDIX

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LIST OF FIGURES

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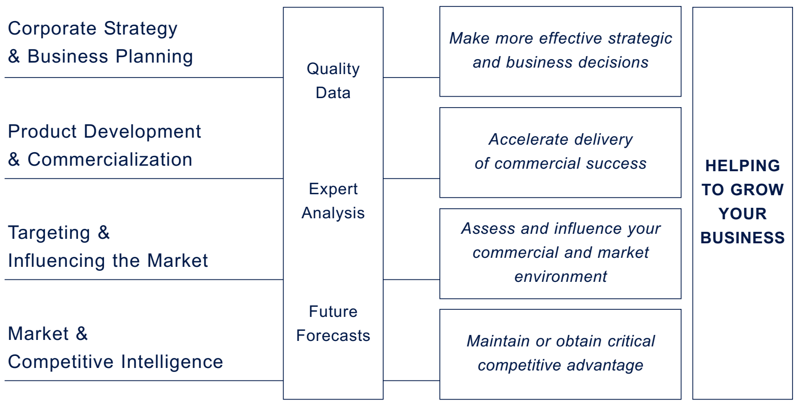

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