INDUSTRY REPORT

General Insurance in the UK

Nov 2023

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IBISWorld specializes in industry research with coverage on thousands of global industries. Our comprehensive data and in-depth analysis help businesses of all types gain quick and actionable insights on industries around the world. Busy professionals can spend less time researching and preparing for meetings, and more time focused on making strategic business decisions.

Table Of Contents

Performance

Track historical, current and forward-looking trends in revenue, profit and other performance indicators that make or break an industry.

3. Performance

https://my.ibisworld.com//uk/en/industry/K65.120/performance

Highlights

Revenue
£75.6bn
2019-24 CAGR ↓ 1.6 %
2024-29 CAGR ↑ 3.6 %

Employees
74,869
2019-24 CAGR ↑ 0.3 %
2024-29 CAGR ↑ 2.3 %

Businesses
319
2019-24 CAGR ↑ 0.6 %
2024-29 CAGR ↑ 2.8 %

Profit
£6.3bn
2019-24 CAGR ↓ 6.5 %

Profit Margin
8.3%
2019-24 CAGR ↓ 2.4 pp

Key Takeaways

- **Big global events shake up insurers' performance.** COVID-19 had a huge effect on investment income, policy sales and payouts and just as things started to calm down, Russia's invasion of Ukraine brought about further disruption.
- **Climate change poses a big threat to insurers.** With global warming continuing to drive more extreme weather conditions, insurers are facing bigger payouts relating to things like floods and droughts.

Executive Summary

Over the five years through 2023-24, the General Insurance industry's revenue is forecast to edge downwards at a compound annual rate of 1.6% to £75.6 billion. After Solvency II regulations were brought in at the start of 2016, buffer requirements constricted capital. More recently, the COVID-19 outbreak brought about huge disruption to insurance patterns and claims, with some lines (like car insurance) becoming considerably more profitable, while the opposite is true for others (like income protection).
Following a solid recovery in 2021-22, the Russian invasion of Ukraine created yet more chaos in the insurance sector, especially for aviation and maritime insurance – these have been pressured by war-related risks and nervous reinsurers. At the same time, insurers have contended with claims inflation, particularly in the home and motor markets, threatening profitability. This has sparked concerns from the Bank of England regarding solvency coverage and whether insurers have adequate capital reserves. All the same, revenue is estimated to rise by 2.6% in 2023-24, while the average industry profit margin is expected to be 8.3%.
Over the five years through 2028-29, revenue is set to swell at a compound annual rate of 3.6% to reach £90.2 billion, while profit is expected to climb to 10.2% of revenue. Claims inflation will remain a bone of contention for insurers, prompting further price hikes and hurting demand. However, changes to the regulatory climate under the Solvency UK regulations will free up capital in the future. Climate change poses a slow-moving but increasing threat as erratic weather conditions boost claim costs.

Performance Snapshot

↓ 2019-24 Revenue CAGR -1.6%

Revenue:

Revenue

£75.6bn

'19-'24 ↓ 1.6 %

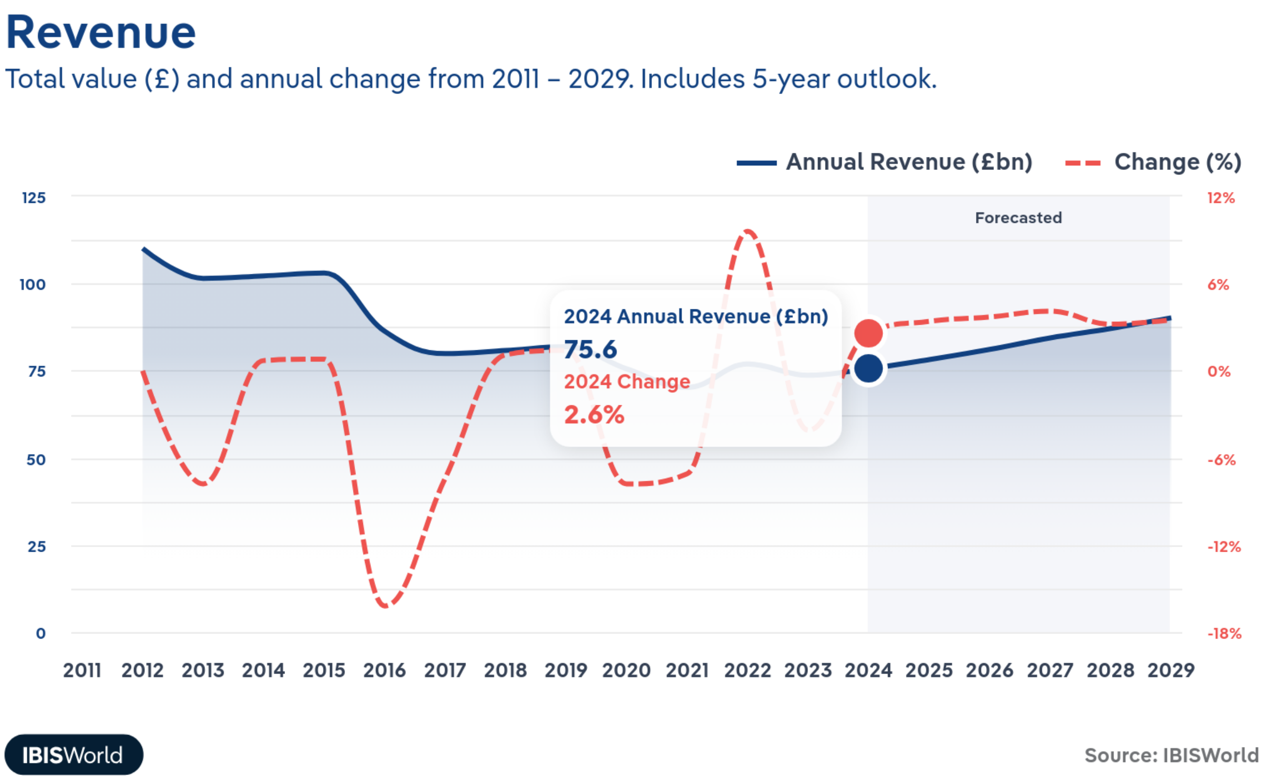
'24-'29 ↑ 3.6 %

2024 Revenue CAGR

↑ 2.6 %

Revenue Volatility

Moderate

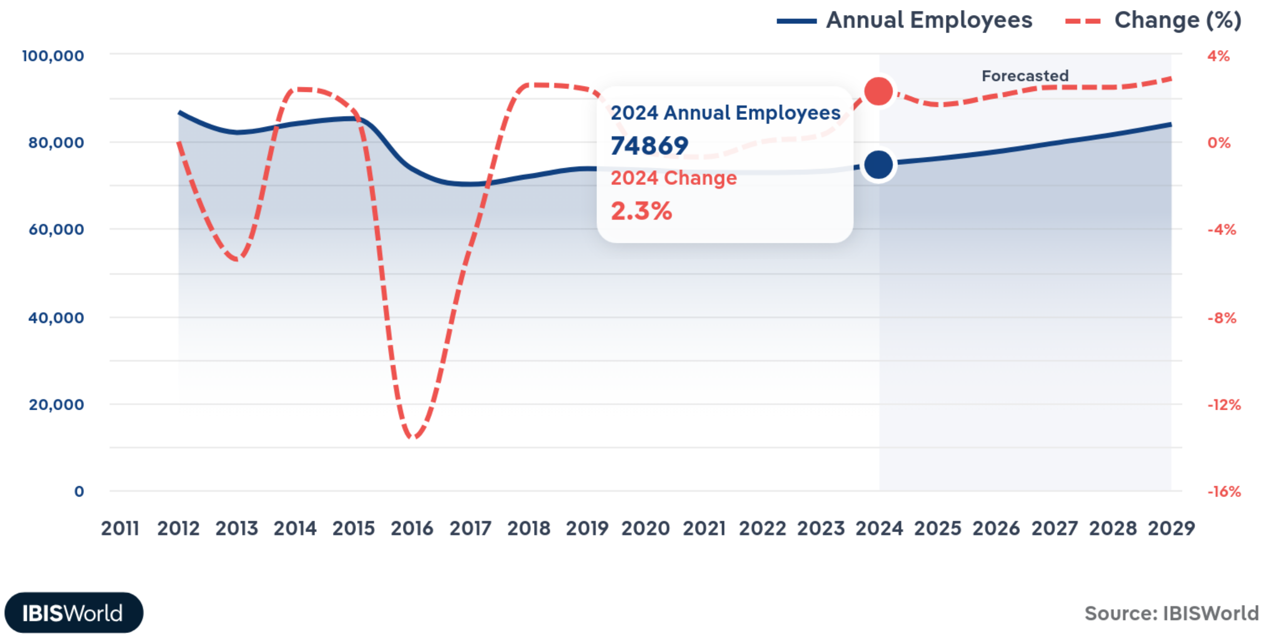


Employees:

Employees	Employees per Business	Revenue per Employee
74,869	**235**	**£1m**
'19-'24 ↑ 0.3 %	'19-'24 ↓ 0.3 %	'19-'24 ↓ 1.9 %
'24-'29 ↑ 2.3 %	'24-'29 ↓ 0.5 %	'24-'29 ↑ 1.2 %

Employees

Total number of employees and annual change from 2011 – 2029. Includes 5-year outlook.

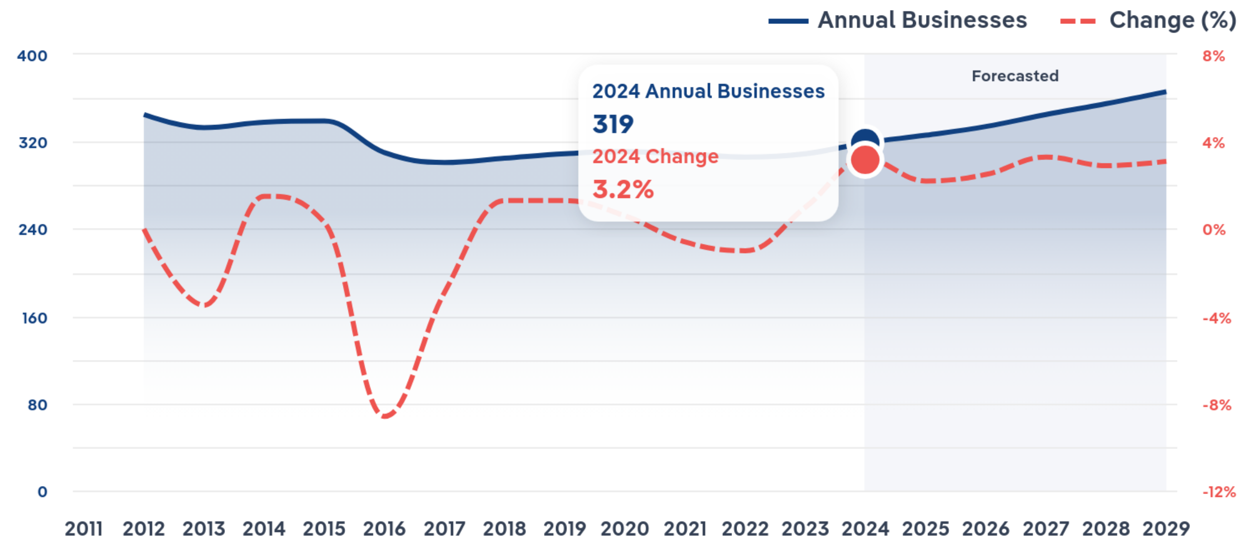


Businesses:

Businesses		Employees per Business		Revenue per Business	
319		**235**		**£237.1m**	
'19-'24	↑ 0.6 %	'19-'24	↓ 0.3 %	'19-'24	↓ 2.2 %
'24-'29	↑ 2.8 %	'24-'29	↓ 0.5 %	'24-'29	↑ 0.8 %

Businesses

Total number of businesses and annual change from 2011 – 2029. Includes 5-year outlook.



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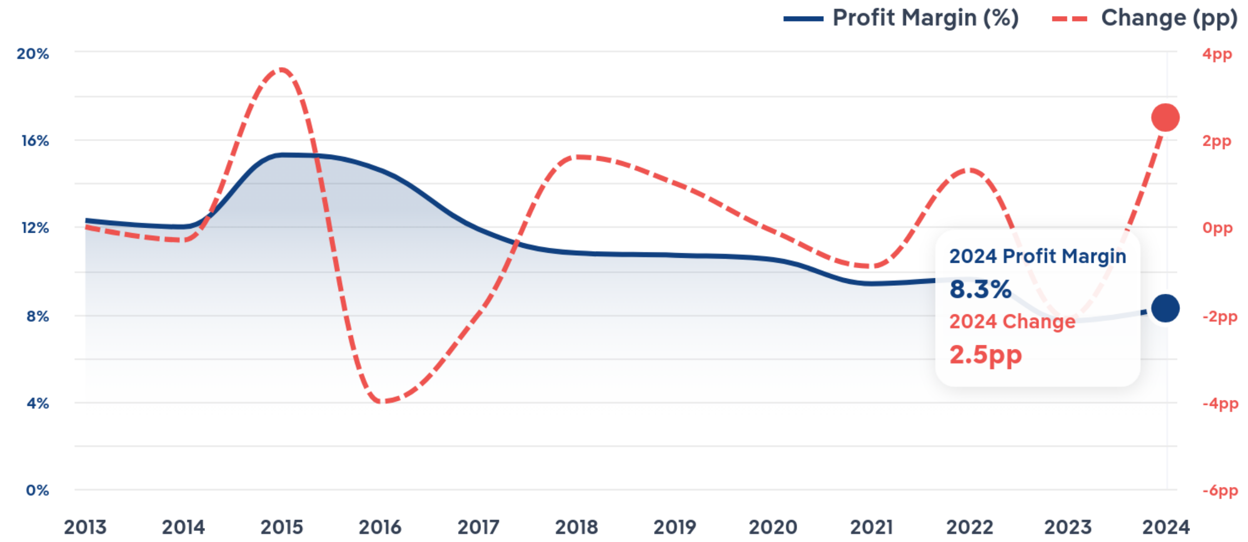
Source: IBISWorld

Profit:

Total Profit	Profit Margin	Profit per Business
£6.3bn	**8.3%**	**£19.7m**
'19-'24 ↓ 6.5 %	'19-'24 ↓ 2.4 pp	'19-'24 ↓ 7.1 %

Profit Margin

Total profit margin (%) and annual change from 2011 – 2024



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Source: IBISWorld

Performance Snapshot

What's driving current industry performance?

COVID-19 shakes up insurance trends

- The COVID-19 outbreak had a huge effect on the insurance market. Some insurance lines, like car insurance, became far more profitable because of social distancing. On the other and, others became less profitable, like income protection, which saw a big spike in claims.
- Severe economic disruption at the height of the pandemic meant insurers covering business disruption lost out.
- Insurers' reliance on investment returns for revenue means the sharp contraction of global markets dented their performance.

Russia's invasion of Ukraine drives up costs

- The Russian invasion of Ukraine has caused significant instability and pushed up costs for UK insurers because of the globalised nature of the industry.
- Maritime and aviation insurance coverage for companies that operate near Ukraine faces much higher risk, as well as higher rates from reinsurers, which they pass onto customers.
- The rise in gas prices caused by the war in Ukraine has been a key driver of mounting inflation, leading to higher payouts and weaker profitability for insurers.

Claims inflation proves stubborn in 2023-24

- Geopolitical tensions, supply chain disruptions, adverse weather and labour shortages have all contributed to claims inflation over the two years through 2023-24. Although insurers have lifted rates, these aren't expected to completely cover the hike in costs, limiting profitability.
- Claims inflation has hit motor insurance especially hard, with the Association of British Insurers reporting vehicle repair costs ramping up by 33% in the second quarter of 2023.
- In June 2023, the Bank of England expressed concern over whether insurers have sufficient capital reserves, as claims inflation can potentially result in a deterioration of solvency coverage.

Regulatory controls hold back insurers' capital

- Solvency II, an EU regulation for the insurance industry introduced in 2016, imposed strict capital requirements for insurance companies, constraining profitability and increasing risk offloading onto reinsurers.
- In September 2020, a ruling on business interruption claims payouts was made by London courts. The Financial Conduct Authority (FCA) brought about a legal case against eight insurers (including Hiscox, RSA and Zurich) for not paying out claims related to business interruption caused by

COVID-19, posing a considerable risk for insurers.

- In January 2022, the FCA imposed its fair pricing regulation, which prevents insurers from charging a renewal price that’s greater than the equivalent new business price.

Volatility

What influences industry volatility?

Investment income constantly fluctuates, inducing revenue volatility

- Insurance companies rely on investments to gain additional income and cover claims.
- Equities performed poorly in 2022, with the S&P 500 recording a 18% drop, hit by interest rate hikes and spiralling inflation. Bond markets also struggled amid the rising base rate environment. Yet, insurers benefitted from healthier yields.
- Equity markets have defied expectations in 2023, shrugging off banking stress, a looming recession and interest rate hikes, with investors adopting a somewhat optimistic outlook. Bonds are also behaving more normally, giving investors diversification if a recession does come, as they typically fare better than equities in economic downturns.

Annual catastrophes and unforeseen events drive up volatility

- While catastrophes mainly affect profit, since they cause significant damages insurers to cover, they can also affect revenue. This is because they tend to encourage insurance uptake following the event.
- According to Halifax Home Insurance, heatwaves contributed to subsidence cases being three times the monthly average in August and September 2022.
- Sometimes, catastrophes change human behaviour. For example, the COVDI-19 outbreak, caused a huge drop in the number of new cars being purchased, pushing down sales of car insurance premiums and denting revenue.

Low & slow

Industry volatility vs. revenue growth (2018-23 CAGR)

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Source: IBISWorld

Key Success Factor

How do successful businesses overcome volatility?

Effectively manage risk

Insurers should diversify their risk profile by offering a range of business lines and making sure they have a mix of different reinsurers and investment assets.

Manage a high-quality assets portfolio

Insurers that keep a good handle on their portfolios will fare the best. Good asset management involves investing in diversified low-volatility portfolios with a maturity profile that takes anticipated claims into account.

Implement superior financial management and debt management

Insurers have to make sure they have enough funds on hand to meet future claims. They have to hold sufficient capital and solvency to make sure they can handle high claim levels.

Ensure appropriate pricing policy

Appropriate premium prices are fundamental to the success of insurance companies.

Outlook

What's driving the industry outlook?

Claims inflation shows no sign of slowing in the short term

- Claims inflation will remain a key theme for general insurers in the near future, prompting further price hikes.
- KMPG expects premiums to rise by 10% across the insurance industry, especially for home and motor policies, as prices face continued upward pressure from natural hazards, reinsurance costs, inflation and supply chain disruptions.
- If motor insurance premiums continue to rise at the rate they have been over the past year, many customers will begin to cancel their coverage, hurting demand, or choose policies with inadequate coverage and high excesses.

Climate change puts a storm on the horizon

- Calculations by the Association of British Insurers suggest industry losses related to annual weather conditions have increased fourfold over the past three decades.
- As climate change becomes an ever increasing threat, premiums are likely to rise. Any large claim payouts caused by events like droughts and floods will eat away at insurers' profitability.
- To try and limit the effects of climate change (on both the environment and their finances), insurers have encouraged environmental projects and divested from environmentally damaging stocks. However, this limits potential gains from investments.

Regulatory changes promote growth in insurance sales

- Following Brexit, the UK retained the Solvency II regulations. However, the government plans to replace Solvency II with a similar but less strict system called Solvency UK.
- The point of Solvency UK would be to reduce the required capital buffers to unlock additional capital for insurers, with the aim of promoting growth in the industry and the UK economy.

Life Cycle

Why is the industry mature?

Contribution to GDP

Insurance companies are major investors, so their contribution to GDP is affected by the volatility of investments in the UK and abroad. The COVID-19 outbreak caused written premiums to slump, reducing general insurers' contribution to the economy.

Market Saturation

Strong competition between companies and the globalised nature of insurance means the market is highly saturated.

Innovation

Innovation centres around improving insurance options for customers online through either embedded insurance in third-party systems or using insurtech to automate risk assessment and insurance policies.

Consolidation

The insurance market has displayed strong consolidation activity, with larger insurers taking advantage of economies of scale to absorb promising new entrants.

Technology & Systems

Technological developments have helped improve data analysis and risk assessments. At the same time, advancements in insurtech products are supporting new revenue lines.

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