INDUSTRY REPORT

General Insurance in the UK

Nov 2023

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Competitive Forces

Uncover challenges and benefits in the operating environment, digging into market share, buyer and supplier power and key success factors for operators.

6. Competitive Forces

https://my.ibisworld.com//uk/en/industry/K65.120/competitive-forces

Highlights

Concentration	Competition	Barriers to Entry
Low	↓ High Steady	↑ High ↑ Increasing

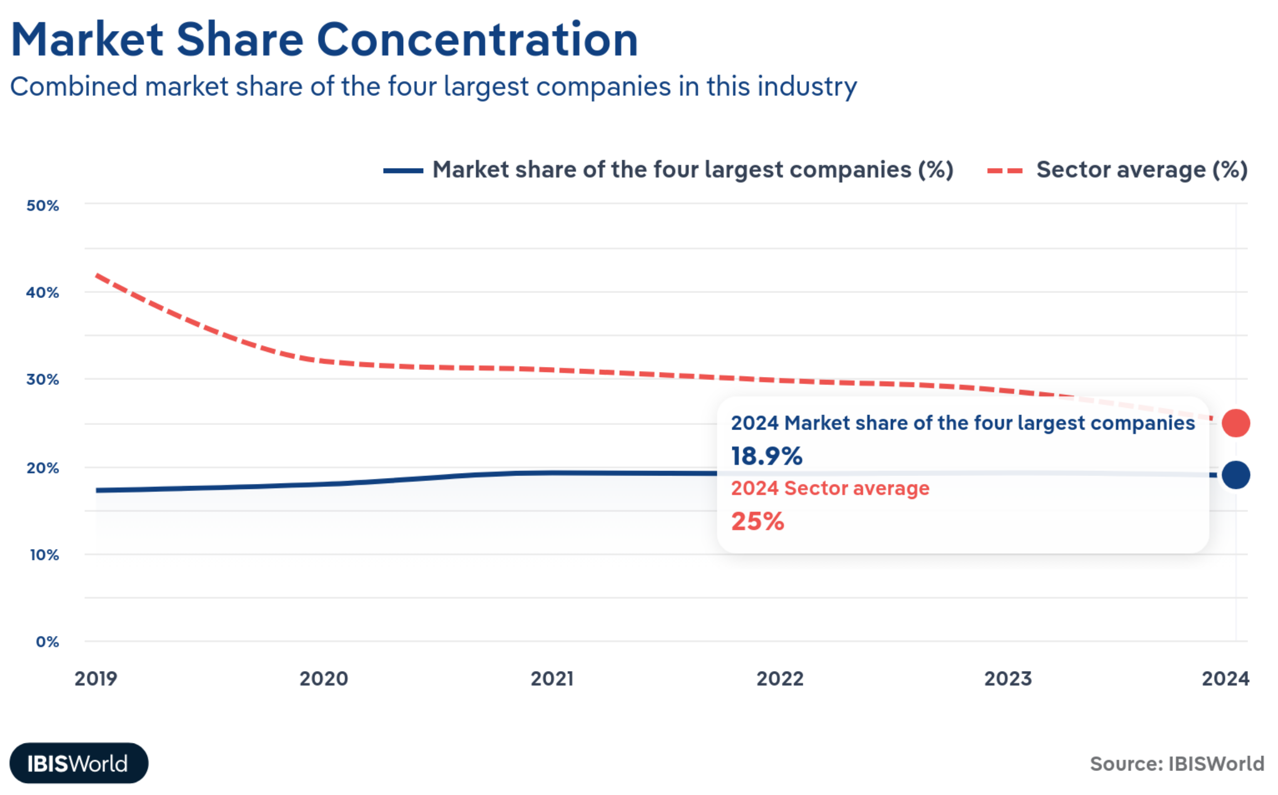
Substitutes	Buyer Power	Supplier Power
↑ Low Steady	Moderate Steady	↑ Low Steady

Key Takeaways

- **A good reputation is key for insurance companies.** Having a strong and well-recognised brand name that's associated with quality service provision is likely to bring in more clients.
- **Lower premiums means more sales.** This is the main way in which insurers compete for clients, although a high number of natural disasters in recent years is pushing premiums up to cover the higher claims.

Concentration

Low



What impacts the industry's market share concentration?

Insurers specialise to outperform the competition

- Strong competition between insurance companies favours those that specialise in particular business segments.
- Since life and pension insurance relates to a second and completely separate set of conditions in addition to general insurance conditions, there aren't many insurers that sell both, limiting concentration.

The benefits offered by economies of scale and acquiring promising entrants drive consolidation

- Large insurance companies have been grabbing hold of smaller, promising competitors to increase their economies of scale and directly distribute more insurance lines.
- Major insurer Allianz Holdings acquired the general insurance businesses of Legal & General and Liverpool Victoria (LV) Insurance in May 2019 to become the second largest insurer in the UK.

- The continued shift to distributing insurance online has let smaller companies offer insurance with extremely low fixed costs, increasing competition and causing further consolidation activity, as well as forcing less-efficient insurers to exit the market.

Key Success Factor

How do successful businesses handle concentration?

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.

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.

Barriers to Entry

High | Increasing

What challenges do potential industry entrants face?

Legal

- Insurers must be licensed, adhere to stringent capital requirements and report detailed financial information to the regulator; this means they need qualified employees knowledgeable on regional regulations.

Start-Up Costs

- Insurance companies face high start-up costs – they need very large amounts of starting capital to be able to cover potential losses.

Differentiation

- Insurance companies differentiate based on premium pricing and service quality, with the major insurance companies in the UK having already built up many years of goodwill.

Labour Expenses

- General insurers rely on employees for selling, administration and processing. The majority of insurers' capital investment is in IT to support back-office functions, risk assessment, data analysis and other important tasks.

Key Success Factor

How can potential entrants overcome barriers to entry?

Ensure appropriate pricing policy

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

Automate processes to reduce costs

Many insurers are implementing automation to streamline and accelerate areas of operation like underwriting, claims processes and data entry, improving cost efficiencies.

Substitutes

Low	Steady

What are substitutes for industry services?

Do-it-yourself

- Rather than purchasing insurance policies, people might choose to maintain their own funds to cover potential losses.
- Setting money aside to cover losses means people don't have to rely on insurers to get things fixed, but also that they retain all risk.
- Keeping their own savings lets people move as much or as little into the fund as they wish.

Swaps

- Swaps are a type of financial derivative where the value of an asset or cash flow is swapped for another – hence the name.
- Swaps allow parties to effectively exchange risk when one side of the swap is considered more predictable. Swaps allow pretty much any company to take on the risk, rather than going to an insurer.

Buyer & Supplier Power

Supply Chain

Direct and indirect supplier and buyer industries related to this industry

Suppliers

2nd tier

1st tier

Reinsurance in the UK

Insurance Agents & Brokers in the UK

General Insurance in the UK

Buyers

1st tier

Furniture, Lighting & Homeware Retailers in the UK

Banks in the UK

Sea & Coastal Passenger Water Transport in the UK

Hospitals in the UK

Consumers in the UK

Vegetable Growing in the UK

Hard Coal Mining in the UK

Textile & Leather Wholesaling in the UK

2nd tier

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Source: IBISWorld

What power do buyers and suppliers have over the industry?

Buyers: Competition between insurance companies lowers premiums

Moderate Steady

- Buyer power varies depending on the customer and the nature of the insurance being provided.
- Unique insurance plans tailored to companies or specific events limits buyer power, as buyers' options are more limited.
- The advancement of automated risk-checking and embedded insurance has ratcheted up competition between insurers, heightening buyer power.

Suppliers: A global supply of reinsurance means contracts are competitively priced

Low Steady

- The globalised nature of reinsurance means the market is huge, especially for common insurance claims.
- Though it’s very broad, the reinsurance market has faced considerable strain, meaning that insurance companies are contending with higher costs. However, these costs are generally passed on to customers through higher premiums.

Key Success Factor

How do successful businesses manage buyer & supplier power?

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.

Develop a cost-effective distribution system

Low-cost and efficient distribution channels are important for minimising costs. Insurers often outsource distribution by using brokers and agents.

Ensure appropriate pricing policy

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

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