Deregulation and liberalisation of market access: the European insurance industry on the threshold of a new era in competition

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Since July 1994, the competitive environment for around 5 000 insurance companies and their almost 400 million potential customers in the European Union (EU) has changed radically. First, insurance prices and conditions are largely subject to market forces, with government regulation being restricted mainly to solvency control. Second, obstacles to foreign suppliers penetrating the market were virtually eliminated with the introduction of the single EU licence. Companies need only a licence from their home country to be able to conduct insurance business all over the EU.

With its latest edition of sigma, Swiss Re's aim is to help provide a better assessment of the effects of this twofold competitive shock. Working on the basis of an empirical analysis of the four major European non-life markets (Germany, the United Kingdom, France and Italy), we expect deregulation and the liberalisation of market access to have the following effects:

Changing market structures

Poorly positioned suppliers with a weak capital base will not be able to withstand the pressure on margins and costs resulting from deregulation and will drop out of the market. New opportunities will, however, open up for specialised and direct suppliers with a clear focus on particular products, regions or sales methods. Tougher competition will not necessarily lead to greater concentration among suppliers. On the contrary, the example of the British and French markets shows that the market dominance of the major insurers may even decline, leading to greater fragmentation of the market. Foreign suppliers in particular will assume a far more important role, opening branches in other countries: in contrast to subsidiaries, since 1 July 1994, branches have been subject only to home country control. This makes them more attractive as a means of working foreign markets.

Market behaviour will alter drastically

Since insurance prices will be determined by supply and demand from now on, the strategy of turnover maximisation is no longer a recipe for success. This means that selling via tied agents - the predominant sales method in Germany and Italy up to now - will become less common. In the deregulated environment, competition will instead manifest itself in prices, products, underwriting criteria, innovative sales methods and creditworthiness. Previous tendencies to cooperate will give way to greater competition. Insurance companies will attempt to seize market shares from other suppliers via greater price and client segmentation.

The market result is characterised by lower margins and greater fluctuations in company results

Freedom to fix prices, alternative sales methods and tougher competition from new suppliers are already putting pressure on premium rates and margins. At the same time, underwriting results will be more volatile. Narrower margins and less balanced results will increase the risk of insolvency, which is virtually non-existent in many countries at present.

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