

SUMMARY

The UK insurance industry remains the largest in Europe and third largest in the world according to the 5th edition of IFSL's Insurance report. It consists of insurance companies, the Lloyd's market, intermediaries and various specialist support professions and services. The London Market is the world's leading market for internationally traded insurance and reinsurance.

The UK insurance market Net worldwide premium income of the UK insurance market totalled £193.9bn in 2006, up 16.2% on the previous year due to an increase in long-term premium income. Overseas markets accounted for a fifth of UK insurance premiums. Profitability and financial strength of UK insurers has improved in recent years due to cost savings and improved investment returns and underwriting results.

Long-term insurance premiums totalled £152.6bn in 2006 up 22% on the previous year, largely a result of an increase in individual and occupational pensions premiums and to a smaller extent to an increase in life insurance premiums. Long-term premium income nearly tripled over the past decade.

General insurance premiums increased by 15% over the past decade to £41.4bn in 2006. Premium income, however, has changed very little since 2000 due to stagnant and falling prices. The key areas of growth for general insurance over the past decade have been the motor and property markets.

The London Market Gross premiums on the London Market were conservatively estimated at £24.3bn in 2006, down 9% on the previous year's record total due to a fall in non-marine treaty reinsurance premiums on the company market. This was however nearly double the premiums generated in 1999, largely a result of a recovery in the reinsurance sector and an increase in capital from the US. In 2006 Lloyd's generated 57% of known London Market premiums with the company market generating 37% and P&I Clubs the remainder. London is a key centre for international insurance and reinsurance, particularly for marine and aviation business and reinsurance.

Contribution to the UK economy Insurance corporations and pension funds make an important contribution to the UK economy. They accounted for around 1.0% of GDP in 2005 and provided employment for 325,000 people in June 2007, including 50,000 in the London Market. Insurance net exports recovered to £3.5bn in 2006 from £1.6bn in the previous year.

International comparisons Global insurance premiums grew by 8% in 2006 to reach \$3.7 trillion resulting from improved profitability and a benign economic environment characterised by solid economic growth, moderate inflation and strong equity markets. The UK has improved its competitive position versus other insurance markets in recent years. It was the third largest market in the world in 2006 and the largest in Europe. Its premiums per head and premiums as a proportion of GDP are the highest in the world. UK insurance companies' investments in 2006 totalled £1,480bn, almost double those of any other European country.

Table 1 Net¹ worldwide premiums generated by the UK insurance industry²

£bn	1995	2000	2005	2006
UK risks	56.3	140.8	132.0	154.3
Long-term	45.0	117.5	99.8	123.2
General	21.3	23.3	32.2	31.1
Overseas risks	26.0	35.5	34.9	39.6
Long-term	11.3	20.5	25.0	29.3
General	14.7	15.0	9.9	10.3
Total	92.3	176.3	166.9	193.9
Long-term	56.3	138.0	124.8	152.6
General	36.0	38.3	42.1	41.4

¹ 'Net' defined as net of reinsurance ceded

² this table only includes data supplied to the ABI and no estimates have been made for non-suppliers. It also excludes Lloyd's business (see London Market section on page 9).

Source: Association of British Insurers

CONTENTS

	Page
Summary	1
The UK insurance market	2
The London Market	9
Contribution to the UK economy	14
International comparisons	16

THE UK INSURANCE MARKET

Net worldwide premium income of the UK insurance market totalled a record £193.9bn in 2006 (Table 1), a 16.2% increase on the previous year due to an increase in long-term premium income. It should be noted that figures in Table 1 only include data supplied to the ABI and no estimates have been made for non-suppliers or Lloyd's (see London Market section on page 9). The figures also do not take into account overseas premium revenue generated by foreign branches and subsidiaries in the UK, which are not required to report their income to the UK authorities.

In recent years insurers have lowered their equity exposure, increased profitability and improved their capital base. During this period economic growth has consolidated and equity markets improved. Prior to this, between 2000 and 2002, falls in equity markets, low interest rates and the slowdown of the global economy had an adverse affect on investment returns causing a fall in sales. The general insurance market was additionally affected by a number of large insurance claims over the past few years which have led to a shortage of capacity and a rise in prices (known as a 'hard market'). At the end of 2006, 79% of UK premiums were from long-term insurance, up on around 60% a decade earlier. Premium income from general business was relatively stagnant during this period due to competitive pressures.

Overseas premium income In 2006, member companies of the Association of British Insurers earned total world-wide long-term premium income of £152.6bn, of which a fifth was from overseas. Their world-wide general insurance premium income was £41.4bn, of which about a quarter was from overseas. This implies total overseas premium income of around £40bn, most of which was from the EU and US (Chart 2). Combined with Lloyd's and London Market insurers, it is estimated that the full figure for UK overseas premium income is in the region of £55bn.

Number of companies The number of companies authorised either by the UK or by another European Economic Area member, to carry on insurance business in the UK totalled 671 in March 2007 (Table 2). There were also 379 services of EEA companies located in the UK. The number of insurers authorised to write business in the UK has gradually fallen over the past decade although there has been a significant increase in their average size. In practice, fewer insurers actually write insurance than are authorised to do so.

Despite a spate of mergers and acquisitions in the past few years, and the arrival of many European and US companies, the UK insurance industry remains predominantly UK-owned with the exception of the London Market. Since 1994, companies with a head office in another EU or EEA country have been allowed to operate in the UK under a license from their home country supervisory authority. Although the majority of companies remain UK-owned, there has been an increase in the number of foreign owned companies over the past decade, from 19% to 21% of the total.

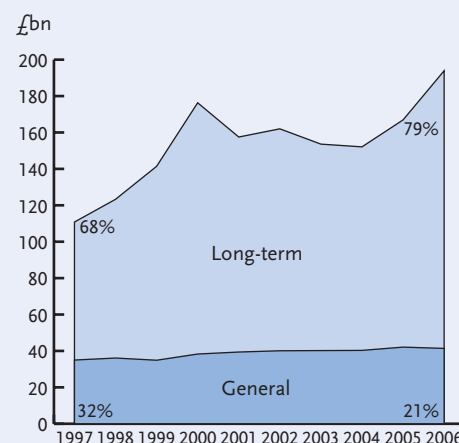
Table 2 Number and ownership of insurance companies authorised in the UK

	General	Life	Com- posite	Total	of which (%)	
					UK owned	Foreign owned
1991	570	203	64	837	83	17
1995	573	191	57	826	82	18
1997	578	177	59	841	81	19
1999	594	176	62	829	80	20
2001	597	165	60	810	79	21
2003	592	160	54	806	78	22
2005	568	159	45	772	77	23
2007	509	136	26	671	79	21

¹ data is for end-March

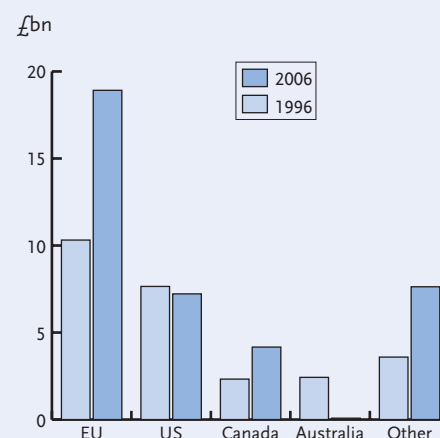
Source: Financial Services Authority

Chart 1 UK insurance industry net worldwide premiums



Source: Association of British Insurers

Chart 2 Overseas premium income by market



Source: Association of British Insurers

Long-term insurance

Long-term insurance includes permanent health insurance and pensions, in addition to basic life insurance, endowment policies and annuities. Net worldwide long-term premium income of the UK insurance industry totalled a record £152.6bn in 2006, up 22% from the previous year largely due to an increase in individual and occupational pensions premiums and to a smaller extent to an increase in life insurance premiums. It should be noted that these figures include the transfer of money, particularly between pension providers which contributed to the growth in 2006.

UK long-term insurance companies were particularly affected by falls in equity markets between 2000 and 2002. This is because more than half of UK long-term insurers' portfolios have typically been allocated to equities. The consequent fall in returns had undermined consumer confidence and inhibited sales of long-term insurance products. Profitability and financial strength has improved since then due to reduced profit participation, lower guaranteed returns on new products, cost savings and less exposure to equities.

Premiums paid to insurance institutions are invested in order to meet the liability at maturity. Long-term insurance funds increased for most of the 1990s due to healthy returns from these investments. Life funds then fell between 2000 and 2002 as equity markets declined but have recovered since. Long-term insurance investment holdings amounted to a record £1,368bn at the end of 2006 (Table 3), up 9% on the previous year.

Domestic business generated around four-fifths of long-term premiums in 2006 or £123.2bn (Chart 3). Occupational pensions accounted for 36% of domestic business, life insurance for 33% and individual pensions for 28% leaving a small residual.

Pensions generated £79.9bn in domestic premiums in 2006, up nearly a third on the previous year. A significant proportion of this increase is due to transfers of money between pension providers following changes in pension regulations in April 2006. This follows a substantial increase in pension provision in 2001 caused by extensive publicity surrounding the introduction of stakeholder pensions. Between 2000 and 2002 growth in pension income was constrained by weakness in global equity markets and a strong UK housing market which had discouraged consumers from saving.

Life insurance domestic premiums totalled around £41bn in 2006, up nearly 13% on the previous year. Life business can be categorised into:

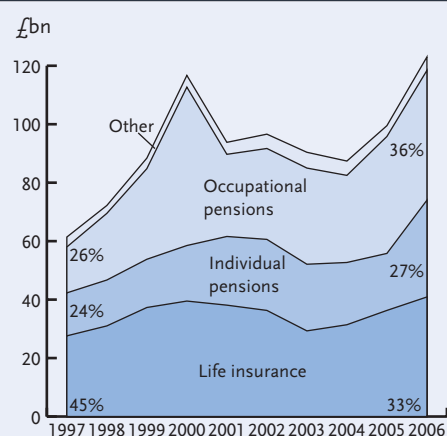
- **Regular premium business** where premiums are paid in over the term of the policy at specified intervals, usually monthly (half of which is mortgage related). Such business has remained largely stagnant over the past decade and totalled £9.6bn in 2006;
- **Single premium business** which consists of premiums that are paid in a single lump sum. These grew nearly three-fold over the past decade and

Table 3 UK companies long-term insurance worldwide

£bn	1995	2000	2005	2006
Premium income	56.3	138.0	124.8	152.6
<i>of which</i>				
UK contracts	45.0	117.5	99.8	123.2
Overseas contracts	11.3	20.5	25.0	29.3
Benefits paid	41.6	95.6	122.3	158.8
<i>of which</i>				
UK contracts	33.2	82.7	108.8	141.4
Overseas contracts	8.4	12.9	13.5	17.5
Size of fund	572	1,025	1,256	1,368

Source: Association of British Insurers, Office for National Statistics,

Chart 3 Domestic long-term insurance net premium income



Source: Association of British Insurers

totalled \$31.2bn in 2006. This increase was facilitated mainly by the performance of savings vehicles such as PEPs, TESSAs, ISAs and single premium life policies offering higher returns than bank and building society deposit accounts.

Overseas business accounted for nearly a fifth of all long-term premiums and 11% of benefits paid in 2006. Overseas long-term premiums nearly tripled during the past decade and amounted to a record £29.3bn in 2006. Most of this was due to an increase in single premium business. The EU was the most important overseas market for UK insurers in 2006 with 43% of long-term overseas premiums, up from 41% in 1996. The US followed with 25%, Channel Islands 10% and Canada 7%.

Largest companies The long-term insurance market has become more concentrated over the past decade with the largest ten companies in the UK accounting for nearly three-quarters of the market in 2006 (Table 4). Standard Life and AVIVA plc alone accounted for over a fifth of the market. The number of long-term insurers decreased from 177 to 136 in the decade up to March-2007 (Table 1). This was due to competitive pressures resulting from the concentration of the global insurance industry as companies diversified into new markets and increased efficiency through economies of scale. Insurance companies are also facing greater competition from institutions outside the traditional insurance sector.

General insurance

General insurance covers a wide range of risks. Contracts are in force for a fixed period, usually one year and are utilised by both companies and individuals.

UK worldwide general insurance net premiums (excluding Lloyd's) increased by 15% during the past decade and totalled £41.4bn in 2006 as shown in Table 5. Premium income, however, has changed very little since 2000. This was primarily due to stagnant and falling prices in the general insurance industry. Insurance companies dominate the domestic market in general insurance with around two-thirds of domestic general premiums with Lloyd's accounting for the remainder.

Domestic business Risks covered by general insurance include (Table 6):

- **Motor insurance** A substantial proportion of growth in UK general insurance premium income during the past decade stemmed from an increase in motor insurance which generated around a fifth of domestic general insurance premiums in 2006 or £11.3bn.
- **Property insurance** This is the second largest business line and accounted for 19% of UK general insurance premiums in 2006 with net written premiums of £9.5bn. The increase in mortgage borrowing over the past two decades has increased demand for property insurance.
- **Accident and health business** Premiums from accident and health

Table 4 Largest UK long-term insurance companies

Worldwide net premium income, 2006	£m	% share
Standard Life	11,136	11.5
AVIVA plc	9,767	10.1
Legal & General	7,361	7.6
Prudential	7,305	7.6
Lloyds TSB Group	6,982	7.2
Aegon	6,728	7.0
ALICO	6,562	6.8
HBOS Financial Services	6,374	6.6
AXA	6,237	6.5
Canada Life	5,493	5.7
Other	22,744	23.5
Total	96,689	100.0

Source: Association of British Insurers

Table 5 UK general insurance worldwide net premiums

£bn	1996	%	2006	%
Annual business	32.8	93	41.4	100
Motor	11.1	32	13.6	33
Non-motor	19.1	54	26.8	65
MAT	1.0	3	0.6	1
Non-MAT reinsurance	1.6	5	0.4	1
Funded business	2.3	7	-	-
MAT	0.9	3	-	-
Non-MAT reinsurance	0.9	3	-	-
Other funded business	0.5	1	-	-
Total premiums	35.2	100	41.4	100
of which				
Overseas¹	12.6	100	9.2	100
EU	4.6	35	6.5	71
Canada	1.4	11	2.1	23
US	3.8	32	-	-
Australia	0.9	7	-	-
New Zealand	0.3	2	-	-
Other	1.6	14	0.6	6

¹ Overseas figures exclude home-foreign business

² this table only includes data supplied to the ABI and no estimates have been made for non-suppliers. It also excludes Lloyd's business

Source: Association of British Insurers

business have increased steadily during the past decade reflecting their importance to both businesses and individuals. They accounted for 11% of general premiums in 2006 or £5.4bn.

- *Marine, Aviation and Transport (MAT) insurance* Lloyd's generates the bulk of such insurance totalling £6.5bn in 2006. Lloyd's syndicates also accounted for around 6% of UK motor business, while the market's ability to write specialised risks accounts for its 15% share of the domestic liability market.
- *Pecuniary loss and general liability* This line generated most of the remaining general insurance premiums. Pecuniary loss premiums in particular have increased in recent years, doubling over the past decade to reach £4.6bn in 2006.

Overseas business Around a fifth of UK general insurance premiums originated overseas in 2006. For most of the 1990s, the share of overseas business was around a third. The most important markets in 2006 were the EU (mostly Ireland, Netherlands, Denmark and France) with 71% and Canada 11% (Table 5).

Insurance capacity For general insurance the levels of written premiums and reserves provide a guide to the capacity of the market or the maximum amount of insurance it will be prepared to accept. In addition to reserves required to meet their estimated liabilities, general insurers are legally required to hold additional funds of between 16% and 18% of net written premiums. In practice companies hold a much greater margin. Total free reserves increased at a faster pace than premiums since 2002 as equity markets improved (Chart 4). In the previous two years free reserves fell sharply as insurers were forced to use their reserves to cover liabilities due to sharp falls on equity markets.

Underwriting and trading results The underwriting results of UK general insurers were positive between 2004 and 2006 primarily due to profits in non-motor domestic business. In the decade up to this period, underwriting results have been negative (Chart 5), that is, total outgoings from general business (i.e. claims, expenses and commission and changes in reserves) have exceeded total premium income. It is common for insurers to make a loss on their underwriting once claims, commissions and other expenses are deducted from premiums. However, this loss should be more than recovered by income received on the investment of technical reserves and other assets. Normally there is a time lag from the receipt of premiums until claims are made and settled. During this period the capital can be invested to generate income.

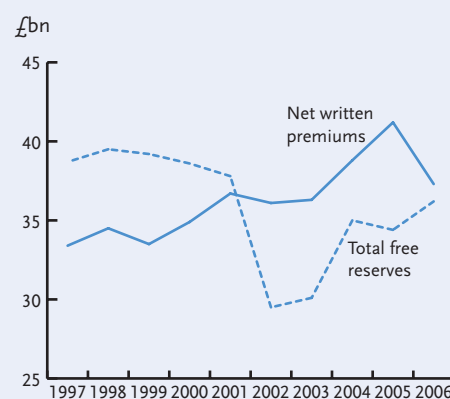
Rising equity markets led to an increase in investment income from £3.7bn in 2002 to £5.1bn in 2006. Trading results and underwriting performance also improved during this period. Between 2000 and 2002, there was a decline in investment income due to falling equity markets. Insurers have therefore focused on underwriting quality as they could no longer rely on investment earnings to support their profit margins. Insurers and reinsurers have raised

Table 6 Shares of UK general business insurance net written premiums¹

£bn	1999	2006
UK risks		
- Motor	9.1	11.3
- Accident & health	4.3	5.4
- Property	7.6	9.5
- General liability	2.7	4.2
- Pecuniary loss	3.5	4.6
Total UK risks	27.2	35.1
Home foreign	4.6	6.0
Non-MAT reinsurance	5.6	4.9
MAT	4.1	5.2
Total	41.4	51.1

¹ figures in this table are different from those in previous tables as they include estimates for non-suppliers and Lloyd's
Source: Association of British Insurers

Chart 4 UK insurance companies general premiums and reserves¹



¹ excludes UK business of branches and subsidiaries of foreign insurers
Source: Association of British Insurers

prices and reduced operating costs. As a result trading profits increased between 2000 and 2006 as underwriting results improved.

Many firms have adopted a long-term approach to cost reduction such as using technology more effectively and re-engineering business processes. Outsourcing has also been a preferred approach, where back office functions have been outsourced to outside firms. This has allowed insurers to focus more on their core business. Some firms have turned to offshore locations in order to achieve savings.

Largest companies The UK general insurance market is one of the most concentrated in Europe as a result of large-scale merger activity. The largest ten motor insurers handled 81% of business in 2006. Similarly, the largest ten commercial property insurers accounted for 91% of the market. Aviva was the largest general insurer in the UK at the end of 2006 with net premium income of £5.9bn followed by RBS Insurance with £4.4bn (Table 7).

Distribution

Insurers can sell their products either directly to customers or through tied agents and independent intermediaries. Innovative distribution channels have made strong headway on the UK insurance market although traditional channels still retain overall dominance.

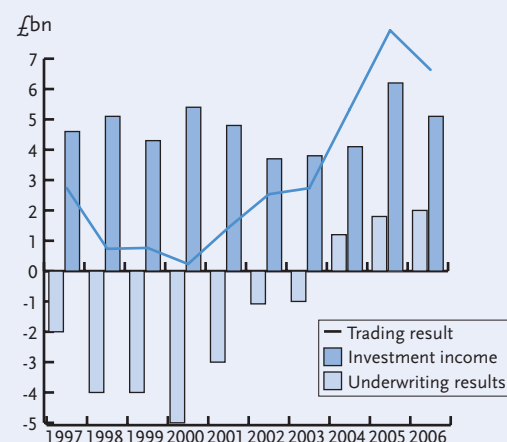
Independent financial advisors (IFAs) and direct salesforces generate most of the new business for long-term insurance (Chart 6). An important change in recent years has been the growth in bancassurance mirrored by a fall in tied and other direct salesforces.

For general insurance, brokers are the dominant distribution channel (Chart 7) although their share fell from 67% in 1996 to 54% in 2006. Company agents' share fell from 17% to 5%. Direct selling and bancassurance increased during this period and they accounted for most of the remainder.

Insurance brokers Traditionally the role of insurance brokers has been to act as intermediaries in the placing of insurance business for their clients, negotiating the price and scope of coverage and advising clients on the design of their risk programs. Despite increasing competition, brokers and intermediaries still retain the largest share of insurance distribution in the UK, in particular of commercial business. The share of independent intermediaries remained relatively unchanged in the decade up to 2006 for general insurance commercial lines with around 83% of the market. Independent intermediaries accounted for around a third of the personal lines market, down from 53% a decade earlier (Chart 7). The role of brokers has changed over the last decade. They have had to adapt and extend their range of services because of technological developments and the increase in direct selling, which has reduced the need for intermediaries.

Company agents include direct sales forces and tied agents. Direct sales forces are sales personnel employed by insurers whereas tied agents represent

Chart 5 UK worldwide general insurers trading result



Source: Association of British Insurers

Table 7 Largest UK general insurance companies

Company	worldwide net premium income, 2006 (£m)	% share
Aviva	5,914	19.2
RBS Insurance	4,438	14.4
AXA	2,703	8.8
Royal & SunAlliance	2,531	8.2
Zurich FS	2,240	7.3
BUPA	1,416	4.6
Allianz	1,260	4.1
HBOS	871	2.8
NFU Mutual	735	2.4
Fortis Insurance Company	660	2.1
Others	8,768	26.2
Total	30,831	100.0

Source: Association of British Insurers

intermediaries who sell the products of one particular insurance company but are separate from it. The importance of company agents as a distribution channel has decreased markedly in recent years from a quarter of total general personal insurance distribution in 1996 to 6% in 2006. The most dramatic decrease was seen in the accident and health sector.

Direct selling represents the sale of insurance directly by insurers and consists almost entirely of direct telesales. In 2006 direct selling generated 30% of the general insurance business, up 10% on its share a decade earlier. Most of the increase was in personal lines business, including motor insurance distribution, the accident and health sector and household property insurance.

Banks and building societies (bancassurance) have made gains in recent years as they have become more adept in cross-selling products. They have certain advantages such as an established customer base from their mortgage business along with the corresponding databases of information. Overall, in the UK, banks and building societies distributed 10% of general insurance in 2006, up on 3% in 1999.

Independent financial advisors (IFAs) sell long-term insurance products. They act as a representative of the customer and their role is to provide advice to the client. Most IFAs are small independent companies and brokers although some banks and buildings societies also own IFAs. In 2006, IFAs generated 64% of new individual regular premiums, up on their 53% share in 1999.

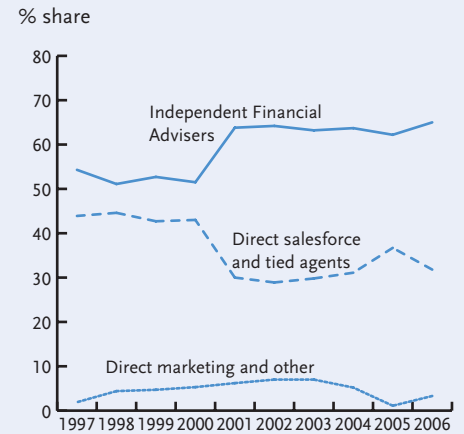
Other services

Other auxiliary services cover the traditionally recognised insurance services such as loss adjusters, actuaries and other support services that include financial, computing, recruitment, legal services, risk management and consultancy services.

Loss adjusters are a key part of the insurance industry. They play a fundamental role as independent claims specialists who verify the liability of an insurer for a claim. The Chartered Institute of Loss Adjusters, to which the majority of practitioners belong, has around 2,000 members. Loss adjusters' fees are paid by the insurers who rely on them to check claims for quantity, description and pricing. For most claims insurers are able to make a payment immediately but in some cases they may send a claims inspector to check upon the circumstances. For larger or more complicated claims, insurers employ the skills of a loss adjuster.

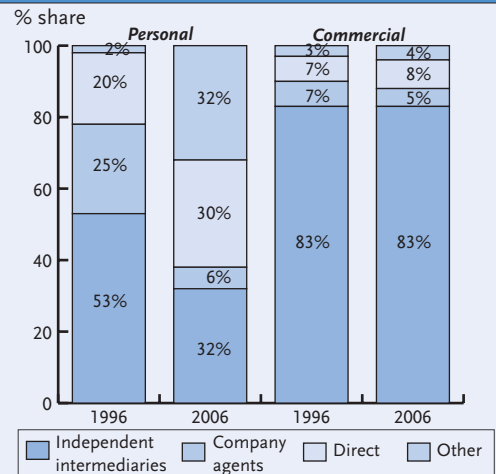
Actuaries are employed by insurers, Lloyd's syndicates and consulting organisations. In life insurance, each company is required by law to have an Appointed Actuary. Using probability theory and life-expectancy data to estimate levels of risk, one of their principal roles is to set premium rates for life insurance and personal pension policies and to advise on bonus payments. They also may be involved in product development, marketing, portfolio management and a range of managerial roles. With the availability

Chart 6 Sources of new long-term premiums



Source: Association of British Insurers

Chart 7 Sources of general business premiums



Source: Association of British Insurers

of more detailed statistics, actuaries have increasingly become more involved in general insurance.

The Institute of Actuaries in England and the Faculty of Actuaries in Scotland are the two professional bodies for UK actuaries. The Faculty and Institute work very closely together as The Actuarial Profession in the UK. The Institute of Actuaries and the Faculty of Actuaries estimate that around a third of their 8,879 Fellows in September 2007 are directly employed by the insurance industry, with a further 40% working as consultants. The remainder are employed in various other areas such as industry, public service, financial institutions and education with about a quarter of their members working in other countries.

THE LONDON MARKET

The London Market is the world's leading market for internationally traded insurance and reinsurance. It is a distinct, separate part of the UK insurance and reinsurance industry centred in the City of London. The London Market consists mostly of general (non-life) insurance and reinsurance, and predominantly involves high-exposure risks. It enjoys a unique status in the global insurance industry as it offers a market place for those risks that cannot easily be placed in local markets, including policies that may contain complex features. The international insurance and reinsurance companies on the London Market are located in a small area, with virtually all of the business being written within the Square Mile of the City. This is probably the most important competitive advantage of the London Market as it produces close ties between buyers, brokers and insurers, and facilitates access and the flow of information amongst all participants.

London Market participants

The main operators in the London Market are insurance companies, Lloyd's, Protection and Indemnity (P & I) Clubs and brokers (Table 8). There is also a concentration of highly specialised service providers including claims adjusters, actuaries, lawyers, accountants and consultants. During the past decade, the London Market has been going through a significant consolidation process during which the number of insurers has more than halved. This was the case not only amongst the insurance companies but also amongst Lloyd's syndicates and brokers. There have also been a significant number of entrants since 2001, both at Lloyd's and within the Company market, backed by a diverse range of international capital. The London Market has become more internationalised in both the sources of its business and the ownership of its participants. Three-quarters of companies in the London Market are foreign-owned and many brokers are members of larger broking groups, many of which also have overseas owners.

Company market The majority of the companies operating on the London Market are foreign owned. London company market participants include: companies operating from London offices that are members of the IUA, other companies with London underwriting offices; EEA licensed insurers and reinsurers operating from a European office; contact offices of foreign companies not authorised to transact business in the UK; and P & I Clubs and other marine mutuals. The London Market is the only place in the world where all 20 of the world's largest insurers and reinsurers have offices.

The IUA is the world's largest representative organisation for international and wholesale insurance and reinsurance companies. Since the mid-1990s, the company market was characterised by a significant number of mergers and acquisitions, a reflection of a global trend. This has led to a reduction in the number of IUA members over the past decade. There has, however, been an increase in their capacity during this period.

Lloyd's is not an insurance company but a market organised and supervised by the Corporation of Lloyd's under the provision of the Lloyd's Acts 1871 to 1982. It is one of the world's largest commercial insurers and the sixth leading reinsurer. The Lloyd's market is a brokers' market that focuses on high risk, specialist insurance for businesses. Lloyd's also provides insurance

Table 8 London Market active participants

end-2006	Number
IUA ¹	41
Marine P&I Clubs	13 ²
Lloyd's syndicates	66
Lloyd's market brokers ¹	165

¹ September 2007 - IUA 'Ordinary' members; ² figure only includes members of the International Group of P&I Clubs
Source: IUA, Lloyd's

Table 9 Lloyd's active membership

Number of	1995	2000	2005	2006
Active members	14,884	4,170	2,211	2,141
Individual	14,744	3,317	1,497	1,124
Corporate	140	853	714	1,017
Syndicates	170	156	62	66

Source: Lloyd's

products suitable for the general public such as motor, travel and household insurance. Lloyd's is famous for developing new and innovative insurance products. Policies for motor, burglary and computer fraud were all developed there. The consolidation at Lloyd's has been even greater than on the company market. As shown in Table 9 and Chart 8, the number of syndicates fell by around two-thirds in the decade up to 2006. During this period Lloyd's average syndicate capacity increased nearly 5 times to reach £245 million.

Since Lloyd's is not a company it has no shareholders and accepts no liability centrally for risks insured in the market. Lloyd's is a society of individual and corporate members each of whom accepts insurance risks as members of one or more underwriting syndicates. Capital is supplied on the basis of an annual venture, with continuing support from providers needing affirmation each year. Where a corporate member and a managing agent of a syndicate are owned by the same company or part of the same corporate group, that capital provider is described as an 'aligned' member. Individual members are liable to the full extent of their private wealth to meet their insurance commitments, while the corporate entities trade with limited liability. Individual members can also underwrite at Lloyd's with limited liability by participating in a variety of investment vehicles.

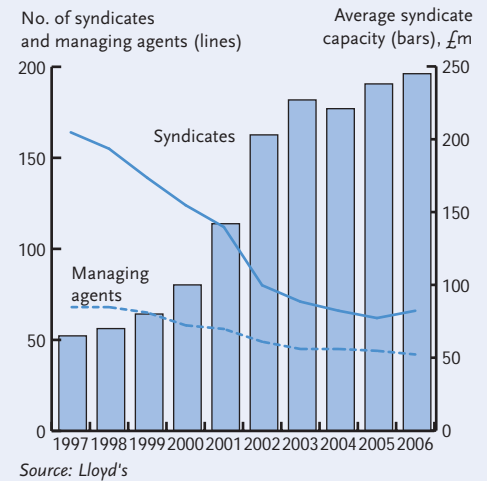
Lloyd's businesses are independent and operate within the wider franchise operated by the Corporation of Lloyd's. Working with the market, Lloyd's seeks to achieve consistent underwriting profit, deliver a strong common rating and mutual security, and attract the highest quality management and underwriting talent. Lloyd's overall objective is to be the platform of choice for insurance and reinsurance buyers and sellers to access and trade both specialist and large property and casualty risks.

Brokers are a key part of the London Market, bringing into it from their networks of offices around the world the vast majority of the insurance and reinsurance risks placed with both Lloyd's syndicates and the companies. Only a small proportion of London Market business is placed directly with insurance companies. The number of brokers on the London Market has declined in recent years, due to mergers and corporate restructuring. The number of Lloyd's brokers totalled 165 in September 2007, down from 211 10 years earlier.

Protection and Indemnity Clubs (P & I Clubs) and other Mutuels P & I Clubs are mutual insurance associations of shipowners and charterers. They form the largest group of London Market mutual associations, which differ from proprietary insurance companies in having risk capital subscribed by their policy holders rather than shareholders. Marine P & I Clubs were created to serve the marine industry and they mainly insure their members against risks not covered by the Lloyd's and marine companies' policies. This includes collision damage and liabilities for loss or damage to cargo, pollution, loss of life or personal injury on ships, and collision liability, including damage to port installations.

London is the biggest centre in the world for P & I Clubs with about 70% of global business volume handled through London. Also based in London is the International Group of P & I Clubs which generate over 90% of global P & I premium volume.

Chart 8 Syndicates and managing agents



Premium income

Gross premiums on the London Market totalled £24.3bn in 2006, down 9% on the previous year's record total (Chart 9) due to a fall in non-marine treaty reinsurance premiums on the company market. The 2006 total was nearly double the premiums generated in 1999, largely due to a recovery in the reinsurance sector and an increase in capital originating from the US. In 2006 Lloyd's generated 57% of known London Market gross premiums, with the company market generating a further 37%. P & I Clubs accounted for the remainder. As Chart 9 shows, over the past decade Lloyd's share of total London Market business increased at a greater pace than insurance companies.

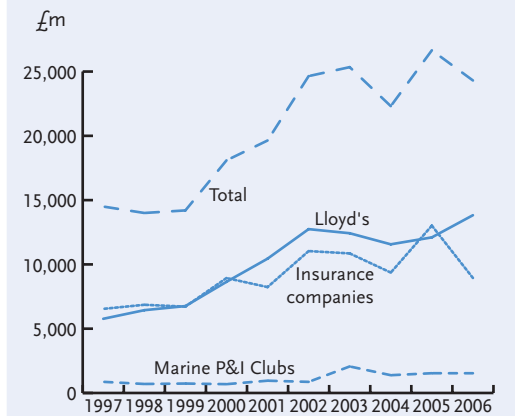
It should be noted that the above figures represent conservative estimates as they do not include domestic risks written on London Market slips which probably account for 5% of UK general insurance premiums. The estimate for London Market premiums also does not include the activities of insurers who write London Market risks, but from outside the UK. In recent years, some EEA companies operating in the London Market have had their legal status changed from subsidiary to branch, so that business which originates in their London offices is not always recorded as London Market business. Consequently the value of actual premium income of the London Market may be increasingly understated.

Company market After substantial price rises in recent years due to 9/11 and other large insurance claims, good profits have boosted insurance capacity which has increased price competition leading to lower prices. In an effort to increase profitability and improve their capital base insurance companies have shown greater emphasis on cost control and underwriting discipline in recent years. There is no precise data on the overall performance of the company market mainly because the published accounts for a large number of companies do not show London Market business separately. The Association of British Insurers' estimates that gross premiums in this part of the market totalled around £8.9bn in 2006, down from £13.0bn in the previous year due to a fall in non-marine treaty reinsurance.

Lloyd's premium income on the London Market totalled £13.8bn in 2006, up from £12.1bn in the previous year. Around 44% of Lloyd's gross written premiums came from home foreign business (or non-marine direct and facultative business), MAT business accounted for a third, and non-marine treaty for the remainder. Lloyd's holds licences to conduct direct insurance business in over 60 countries, thus it is stronger than the company market in the direct insurance of "home-foreign" risks. Reinsurance can be undertaken in these and many other territories with Lloyd's operating in over 200 countries and territories worldwide. In 2007 Lloyd's opened an onshore reinsurance operation in Shanghai, gaining a strategic foothold in one of the world's fastest-growing insurance markets.

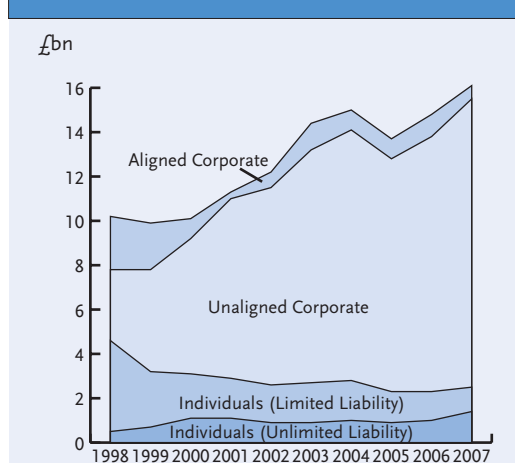
Lloyd's reported a strong financial result in 2006 with profit before tax of £3.7bn following a loss of £103m in the previous year following the record hurricane season (Table 10). This represents a 31% return on capital employed. The strong performance in 2006 was largely a reflection of strong underlying performance and low loss incidence during the year. Since 1 January 2005, Lloyd's main market financial reporting regime has moved

Chart 9 London Market gross premium income



¹ 1998 breakdown is IFSL's estimate based on 1997 & 1999 data
Source: ABI

Chart 10 Lloyd's gross allocated capacity



Source: Lloyd's

from a three-year fund accounting basis to an annual accounting basis under UK Generally Accepted Accounting Principles (UK GAAP).

Lloyd's market capacity, or the maximum volume of insurance premiums the market can accept in a single year, totalled £16.1bn at the beginning of 2007, up 8.8% from the previous year. Most of this increase came from existing players looking to capitalise on the good pricing still available in business lines impacted by 2005 hurricanes. Since 1994 there has been a major restructuring of the market with the introduction of corporate capital. This resulted in a decrease in the number of syndicates and large increase in the average managed capacity. The providers of capacity have also changed as the proportion of individual capital in the market has steadily decreased during this period (Chart 9). At the beginning of 2007, the proportion of market capacity supplied on an aligned corporate basis totalled 81%. Unaligned corporate members provided around 4% of capacity with third-party investors accounting for the remaining 16%. Of the total, 35% comes from non-UK sources, primarily in the US and Bermuda. The UK Listed sector continued to grow into 2007, reflecting ongoing buy-outs of managed capacity and the floating of Heritage Group.

P & I Clubs' gross premiums in the London Market indicates a total of £1,535 million in 2006, practically unchanged from the previous year. Most of P & I Clubs' premiums were in MAT & MAT reinsurance.

Types of insurance transacted on the London Market

MAT business has been the most buoyant part of the London Market over the past decade (Chart 11), increasing its share from 27% in 1997 to 31% in 2006, while home-foreign insurance decreased from 39% to 34%. The share of non-marine treaty reinsurance was relatively stable during this period at around a third of the total.

Non-marine treaty reinsurance accounts for most of business placed in the London Market. This represents insurance of liabilities assumed by insurers that protect the original insurer against losses that may be incurred on a portfolio of risks. Gross premiums for non-marine treaty reinsurance totalled £8.4bn in 2006 down from £11.6bn in the previous year due to a fall in insurance companies premiums. Insurance companies still generated more than half of the business with Lloyd's making up the remainder.

Non-marine direct and facultative business or home-foreign business represents direct insurance and facultative reinsurance written in the UK for property and casualty risks situated outside the UK. Property insurance comprises the largest share of home-foreign business. Premiums totalling £8.3bn were generated in 2006 up from £8.1bn in the previous year.

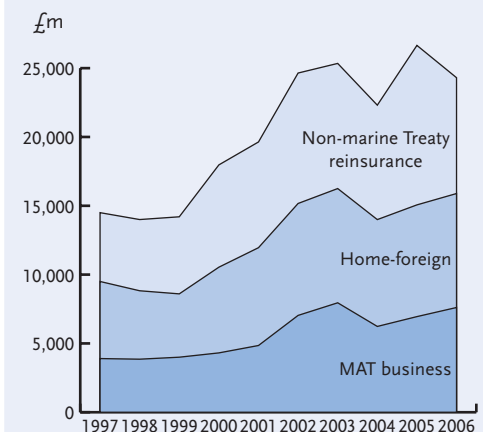
Marine, aviation and transport (MAT) business mainly covers damage to the hull and cargo of ships and aircraft, along with the liability for injury and death to passengers. It includes both direct and reinsurance business. Gross premiums from MAT and MAT reinsurance business totalled £7.6bn in 2006, up from £6.9bn in 2005. Within the MAT sector aviation insurance business has gained in importance over the past decade. Lloyd's remains the overall market leader in this class, with more than half of premiums, ahead of the

Table 10 Lloyd's financial highlights

£m	2005	2006
Gross written premiums	14,982	16,414
Net written premiums	11,770	13,201
Net earned premiums	11,785	12,688
Net claims incurred	(9,505)	(6,219)
Net operating expenses	(3,668)	(4,327)
Underwriting Result	(1,388)	2,142
Investment Return	1,498	1,729
Other Expenses	(213)	(209)
Pre-tax profit	(103)	3,662

Source: Lloyd's

Chart 11 London Market gross premium income by type



Source: ABI

one-quarter share of companies, with P & I Clubs making up the remainder.

London Market premium income by region

An important feature of London Market business is its wide geographical distribution. Over the past decade the 'geographic spread' of business done by London Market insurers has changed. Although the mature markets of the US and Western Europe remain the major sources of income, growth in insurance in these countries is far slower compared to the developing markets of Latin America, Asia and Eastern Europe.

There is no accurate breakdown of the geographical sources of premium income on the London Market as a whole due to the difficulty in deciding the geographical origin of some types of business such as MAT and non-marine treaty reinsurance which may be generated in more than one country. Lloyd's publishes a comprehensive geographical breakdown of its business. This shows that the US was the most important source of its business in 2006 with 39% of premiums. The UK generated 24% of premiums followed by Europe, from where 15% of premiums were generated (Chart 12). The remainder of business originated from the emerging markets, from where business has generally been on a rising trend over the past decade.

The importance of the US as a source of business for the London Market has been growing over the past decade. It is the largest source of business for Lloyd's. The London Market is one of the leading providers of direct insurance and reinsurance to the US attracting around a fifth of outward US reinsurance and half of US primary insurance placed abroad.

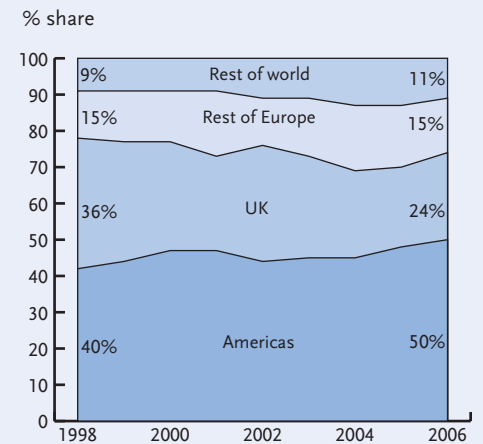
London Market share of world insurance

London is a key centre for international insurance and reinsurance, particularly for marine and aviation business. In terms of global non-life premiums, London Market's share is only around 3%, but its share of industrial insurance business is higher at between 10% and 15%. Data compiled by Standard & Poor's for five of the main operational locations for P & I Clubs shows that the UK's share of this market was 65% in 2006 (Chart 13). Despite a drop in its share over the past decade, London still remains the leading centre for marine and aviation and reinsurance business:

- *Marine* Initial estimates for 2006 show that London had the largest market share of global marine net premiums, 23.7% up from 20.6% in 1995 (Table 14). Japan was the next largest market with 11.3% but the bulk of its business was from its own domestic market.
- *Aviation* Latest available data shows that London was the market leader in aviation insurance in 1999, with 39% of global net premiums. The other major markets for aviation insurance are the US and France.

Non-Marine Treaty Reinsurance The London Market's share of the world market for non-marine treaty reinsurance has remained relatively stable, estimated to be between 5% and 10%. This includes all reinsurance organised within local markets. The London Market is estimated to account for a quarter of internationally available reinsurance.

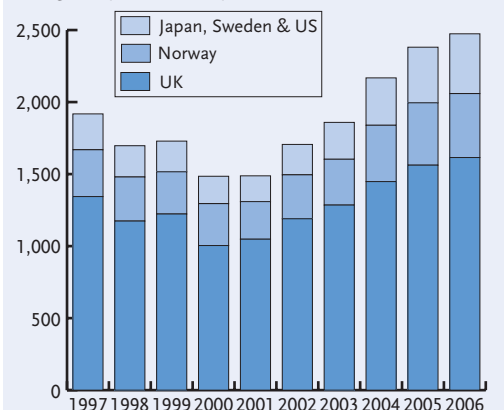
Chart 12 Lloyd's premium income by region



Source: Lloyd's

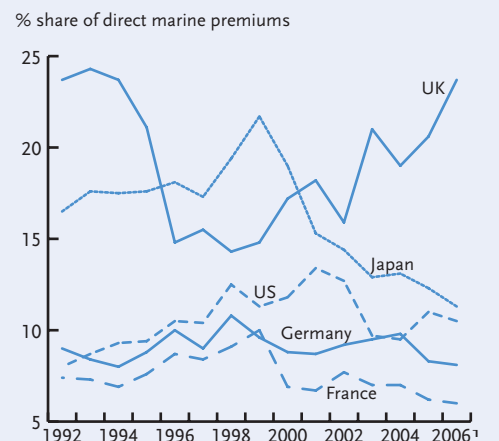
Chart 13 Premiums of P&I Clubs

\$m, gross premiums, operational location of P & I Clubs



Source: International Union of Marine Insurance, Standard & Poors Marine Mutual Report

Chart 14 Direct marine premiums market share



Source: International Union of Marine Insurance

CONTRIBUTION TO THE UK ECONOMY

Output

The output of the insurance sector is difficult to measure as large claims, can cause a reduction in value added. Latest available data show that in 2005, insurance corporations and pension funds accounted for approximately 1.0% of GDP, down around 1% on the previous three years due to a smaller operating surplus. This measure excludes brokers and other auxiliary professions. Income from large overseas investments of the sector is not included in this measure as it is not part of GDP. Strong performance of equity markets and solid growth of the global economy together with cost containment has enabled insurers to increase profitability in recent years (Chart 15).

Employment

Employment in the insurance sector totalled 325,000 in June 2007, down 10% on 2000 with an additional 135,000 in activities auxiliary to insurance. The job cuts were due to post-merger rationalisations and cost cutting in the insurance arms of large financial institutions. In total, insurance and pension funds accounted for 31% of financial services employment and 1.2% of total UK employment (Table 11).

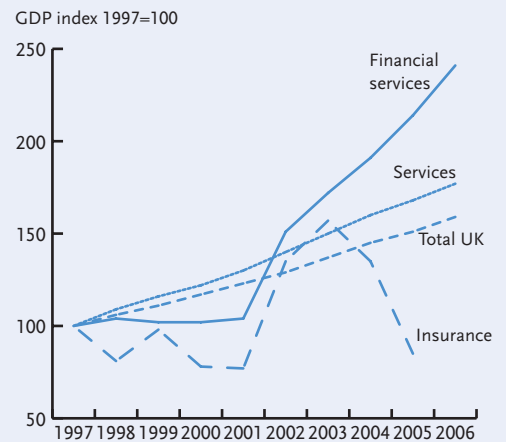
The London Market provides employment for approximately 40,000 insurance employees in the City of London and adjacent areas. In addition to this, the London Market also generates around 10,000 jobs in other parts of the country which help in administrating its business.

Net exports

The UK insurance industry generates net exports by selling cross-border insurance and reinsurance cover. Auxiliaries, such as brokers, also generate net exports by earning commission on the placement of cross-border risks.

Insurance net exports recovered to £3.5bn in 2006 from £1.6bn in the previous year. The 2005 total was depressed by claims totalling about £2bn relating to Hurricane Katrina. The absence of any claims on this scale in 2006 meant that net exports from other direct insurance picked up from £729m to £3.23bn. Earnings from reinsurance continued to fall to £393m in 2006 from £970m in 2005, continuing their decline from the peak of £2.4bn in 2003. The buoyant market in reinsurance, that arose in the wake of 9/11 against the possibility of similar large claims has waned. Life insurance and pension funds recorded a net deficit of £1.4bn. Net exports of insurance brokers rose slightly to £1.4bn in 2006.

Chart 15 UK output



Source: Office for National Statistics

Table 11 UK employment in the insurance sector

Thousands	1995	2000	2005	2007 ¹
Insurance	213	228	196	175
Auxiliary to insurance	134	135	134	135
Total insurance	347	363	330	325
Financial services	999	1,065	1,102	1,052
UK employment	26,100	25,809	26,525	26,488
Insurance as % of				
- Financial services	34.7	34.1	30.0	30.9
- UK employment	1.33	1.42	1.24	1.23

¹ June 2007

Source: Office for National Statistics

Table 12 UK insurance net exports

£m	1998	1999	2000	2001	2002	2003	2004	2005	2006
Insurance trade balance									
Life insurance and pension funds	838	1,557	1,417	2,174	797	213	-712	-1,464	-1,394
Freight insurance	-501	-528	-680	-713	-678	-653	-740	-819	-1,063
Other direct insurance	439	653	412	-579	2,164	1,825	3,350	729	3,228
Reinsurance	331	-49	-296	1,011	1,473	2,355	1,023	970	393
Insurance brokers	1,167	1,789	2,220	1,907	2,052	2,247	1,214	1,245	1,401
Insurance service earnings	2,274	3,422	3,073	3,800	5,808	5,987	4,135	661	2,565
<i>Deduct: Imports of freight insurance</i>	577	575	721	762	758	778	830	891	960
Net exports of insurance sector	2,851	3,997	3,794	4,562	6,566	6,765	4,965	1,552	3,525

Source: National Statistics

In addition to net exports, insurance companies also generate overseas income from earnings on direct and portfolio investment. Insurance companies' direct investment income which includes interest, profits and dividends from overseas subsidiaries and affiliates totalled £4.0bn in 2006. Earnings on portfolio investment reached £8.8bn in the same year.

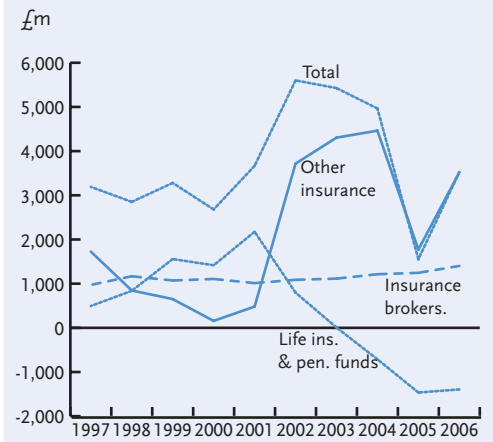
International comparisons The biggest trade deficit in insurance services is recorded by the US, having risen nearly threefold from \$7.7bn in 2000 to around \$22bn in 2004 and 2005. Deficits of \$7bn were also reported by China and Mexico. The UK trade surplus on insurance services dropped to \$1.4bn in 2005 from \$7.5bn in 2004 partly due to payouts related to Hurricane Katrina. Switzerland notched up the largest surplus on insurance at \$4.0bn. Elsewhere the insurance trade position was relatively evenly balanced.

Provision of investment funds

Insurers generate nearly half of institutional investment holdings in the UK. In 2006, they accounted for £1,480bn of funds under management, up 7.1% on the previous year (Chart 17). Over 90% of investment funds arose from long-term insurance policies. General insurance policies, which by definition have a shorter timescale with claims less easy to plan for, contributed the remainder.

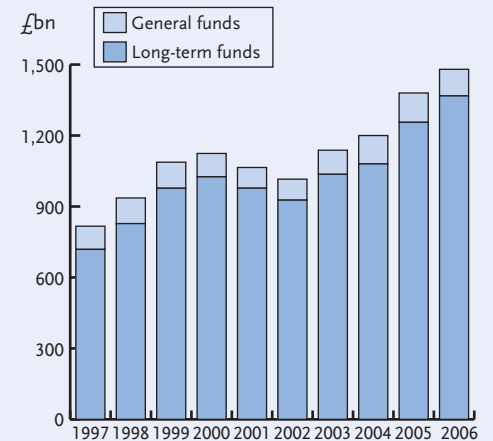
Over a half of UK insurers' investments are allocated to equities although this proportion has fallen somewhat in recent years (Chart 18). Some insurance companies have been forced to reevaluate their portfolio allocation and increase their holdings of other asset classes in order to increase their solvency ratios. In 2006, around 15% of all UK share holdings, or around £273bn, were in the hands of insurance companies as beneficial owners.

Chart 16 UK insurance net exports



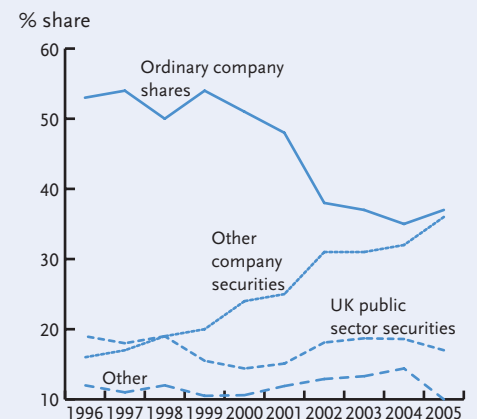
Source: Office for National Statistics

Chart 17 UK insurance industry investment funds



Source: Office for National Statistics

Chart 18 UK insurance companies' asset allocation



Source: Office for National Statistics

INTERNATIONAL COMPARISONS

Largest insurance markets

Global insurance premiums grew by 8.0% in 2006 (or 5% in real terms) to reach \$3.7 trillion (Table 13) due to improved profitability and a benign economic environment characterised by solid economic growth, moderate inflation and strong equity markets. Profitability improved in both life and non-life insurance in 2006 compared to the previous year. Life insurance premiums grew by 10.2% in 2006 as demand for annuity and pension products rose. Non-life insurance premiums grew by 5.0% due to growth in premium rates. Over the past decade, global insurance premiums rose by more than a half as annual growth fluctuated between 2% and 11%.

Advanced economies account for the bulk of global insurance. With premium income of \$1,485bn, Europe was the most important region (Chart 19), followed by North America (\$1,258bn) and Asia (\$801bn). As Table 13 shows, the top four countries accounted for nearly two-thirds of premiums in 2006. The US and Japan alone accounted for 43% of world insurance, much higher than their 7% share of the global population. Emerging markets accounted for over 85% of the world's population but generated only around 10% of premiums. The volume of UK insurance business totalled \$418bn in 2006 or 11.2% of global premiums.

The UK insurance market was the largest in Europe and after the US and Japan the third largest in the world in 2006. Over the past decade the US maintained its 31% share of the global market, Japan's share fell from 25% to 12% while the UK increased its share from 7% to 11%. The UK's life market premiums were almost double those of any other European country. The UK is also the second largest European non-life insurer, after Germany.

Several factors can influence the premium levels in a country. Countries such as India and China are seen as having great potential due to their size, but low average income has stifled demand. In many emerging markets, there is limited awareness of the economic importance of insurance by both individuals and businesses. Another major factor is the extent of the state's involvement in insurance provision. Where this has been reduced, it has stimulated the growth of long-term insurance.

Like other financial services, insurance business is becoming more international in its organisation and operation. The changes are coming from both the demand and the supply sides of the industry and are also being made possible by the reduction of barriers to international trade and developments in information technology. In general, insurance is less liberalised internationally than banking and is particularly liable to new regulatory obstacles. The current services negotiations in the World Trade Organisation aim to produce substantial liberalisation, resulting in the removal of many of the types of barriers that currently exist.

Premium income by type

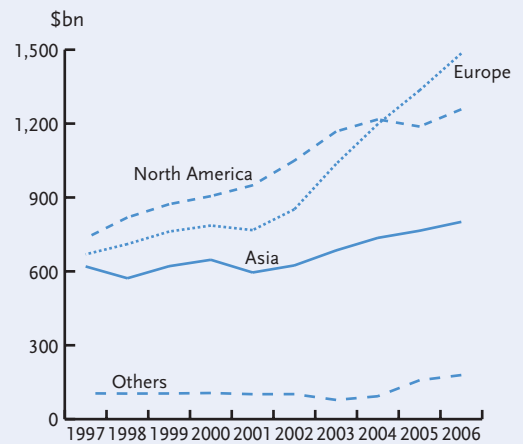
Although the insurance market is often viewed as a single entity there are

Table 13 Largest insurance markets

	1996		2006	
	Premium income \$bn	% share	Premium income \$bn	% share
1 US	653	31	1,170	31
2 Japan	520	25	460	12
3 UK	137	7	418	11
4 France	137	7	251	7
5 Germany	152	7	205	6
6 Italy	44	2	139	4
7 Canada	63	3	101	3
8 South Korea	36	2	88	2
9 Netherlands	62	3	71	2
10 Spain	30	1	66	2
11 PR China	36	2	63	2
12 Australia	33	2	53	1
13 Taiwan	16	1	52	1
14 Switzerland	7	0	47	1
15 Belgium	7	0	43	1
Other	173	8	496	13
World	2,106	100	3,723	100

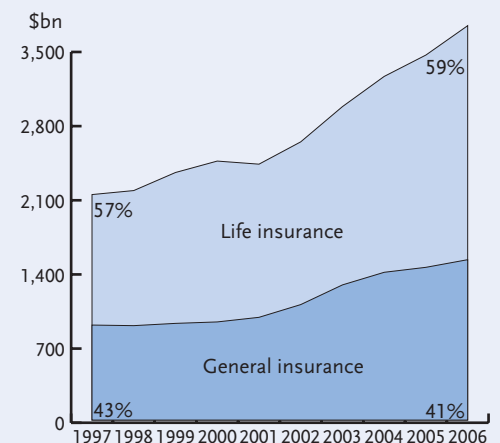
Source: SwissRe

Chart 19 Global premium volume by region



Source: Swiss Re

Chart 20 Global premium income by type



Source: Swiss Re

substantial differences in its two segments - life insurance on the one hand, and general or non-life insurance on the other:

Life insurance accounted for the majority of world insurance in 2006 with premium income totalling \$2,209bn or 59% of the total (Chart 20). Global life insurance premiums increased by 10.3% (or 7.7% in real terms) during the year, the highest growth rate since 2000 in most regions, apart from North America which saw growth at around the long-term trend and Japan which experienced a decline in premium income. Factors contributed to the strong growth rate in 2006 included strong equity markets, favourable regulatory changes and tax incentives, the shift from public to private pension schemes and increase in profitability.

Developed countries are set to experience a dramatic demographic shift during the course of the next 50 years due to increasing life expectancy and a falling birth rate. Trends towards greater individual provision for retirement and health care and less reliance on state pension systems should provide the life insurance industry with significant growth opportunities in the future.

General insurance premiums grew by 5.0% (or 1.5% in real terms) in 2006 to reach \$1,514bn mostly due to strong growth in emerging markets. Overall real growth in 2006 was however only around half the 3% average growth during the past decade and follows a small decline in premiums in the previous year. Although the long-term trend shows a gradual increase in the level of natural catastrophe claims, 2006 produced the third-lowest catastrophe losses of the past 20 years.

As shown in Chart 21, apart from the US, Germany and Canada where the proportion of non-life business was larger than life-business, in most developed economies life-business generated the bulk of premiums. This was especially the case in Japan, the UK and France.

Insurance density and penetration The measurement of premiums per head gives a useful comparison of insurance density in different countries although price variations slightly distort some figures. According to this measure, in 2006 the UK had the highest insurance density in the world (Table 14). Long-term premiums per head have generally grown faster than general premiums for most countries.

Insurance density is significantly higher in industrialised countries than in emerging markets although there are huge variations in penetration between various emerging market countries. It should be noted however, that direct country comparisons may be misleading as the level of expenditure on insurance depends on the relative importance of state and private welfare insurance which varies from one country to another.

Another way of comparing insurance industries in different countries is to look at insurance premiums as a proportion of GDP. Insurance penetration on this measure was highest in the UK at 16.5%, followed by South Africa (16.0%) and Taiwan (14.5%) (Table 15). Globally, insurance penetration averaged 7.5% in 2006.

Chart 21 Premium income by type and country



Table 14 Insurance density

2006	Total business \$	of which % share	
		Non life	Life
1 UK	6,467	21	79
2 Ireland	5,565	24	76
3 Switzerland	5,562	44	56
4 Denmark	4,271	33	67
5 France	4,075	28	72
6 US	3,924	54	46
7 Netherlands	3,829	46	54
8 Finland	3,681	21	79
9 Japan	3,590	21	79
10 Belgium	3,443	32	68

Source: SwissRe

Table 15 Insurance penetration

Premiums as share of GDP, 2006	Total business	of which % share	
		Non life	Life
1 UK	16.5	21	79
2 South Africa	16.0	19	81
3 Taiwan	14.5	20	80
4 South Korea	11.1	29	71
5 Switzerland	11.0	44	56
6 France	10.4	24	76
7 Japan	10.5	21	79
8 Hong Kong	10.5	12	88
9 Ireland	10.4	51	49
10 Netherlands	9.4	46	54

Source: SwissRe

Run-off market

"Run-off" means the management of liabilities and exposures left behind when an insurance or reinsurance company stops underwriting a business. Insolvency has been the biggest factor that has forced companies to cease underwriting and go into run-off. The US, UK, Bermuda, Japan, Germany and France account for the bulk of this market.

The size of the UK run-off market has grown significantly over the past two decades. This was primarily due to large catastrophe losses. It is now regarded as a separate part of the market with its own specialists and its own department at the FSA. According to the latest KPMG Run Off Survey, liabilities of the UK general insurance run-off market amounted to £32.7bn at the end of 2006 or 18% of the UK general insurance market. Liabilities of the UK life insurance run-off market totalled £132.0bn or 11% of the total. (Table 16). In October 2006, Equitas announced a deal with National Indemnity Company (NICO), an 'AAA' rated subsidiary of Berkshire Hathaway, that if fully implemented will terminate Lloyd's contingent exposure to 1992 and prior liabilities and bring finality to the thousands of reinsured Names.

Insurance investment funds

According to IFSL estimates, at the end of 2006, insurers held \$17.4 trillion of funds under management about four/fifths of which was from life insurance and the remainder mostly from health, property and casualty insurance. US insurance companies accounted for a third of the total, followed by Japanese and UK companies with around 14% each. UK insurance companies' investments were almost double those of any other European country (Chart 22). Asset allocation around the world varies considerably. UK insurers typically invest a larger proportion of funds in equities than other developed countries. Insurers in the UK and globally have however reduced their equity investments since the downturn in stock markets between 2000 and 2002.

Insurance companies

ING Group was the largest global life insurance company with \$158bn in premiums in 2005. UK companies in the top ten included Aviva and Prudential (Table 17). The list of the largest property and casualty insurance companies is dominated by German and US companies (Table 18).

In the 1990s insurers increasingly focused on both domestic and cross-border merger and acquisition activity. This has resulted in the formation of some very large companies which tend to dominate both life and general insurance markets in many European countries. Since 2000, merger and acquisition activity has fallen partly due to the economic environment of the past couple of years.

Bancassurance represents the distribution of insurance products through a bank's distribution channels. Banks, building societies and similar institutions in many countries have diversified into insurance business,

Table 16 UK insurance run-off market

2006	Liabilities £bn	% share
<i>General insurance</i>		
Run-off market	32.7	18
- Lloyd's (1993 onwards)	5.2	3
- Equitas (Lloyd's 1992 and prior)	4.8	3
- Other solvent run-off	13.2	7
- Insolvent run-off	9.5	5
Active market	153.0	82
Total	185.7	100
<i>Life insurance</i>		
Run-off market	132.0	11
Active market	1,035.0	89
Total	1,167.0	100

Source: KPMG

Chart 22 Insurance companies invested assets under management

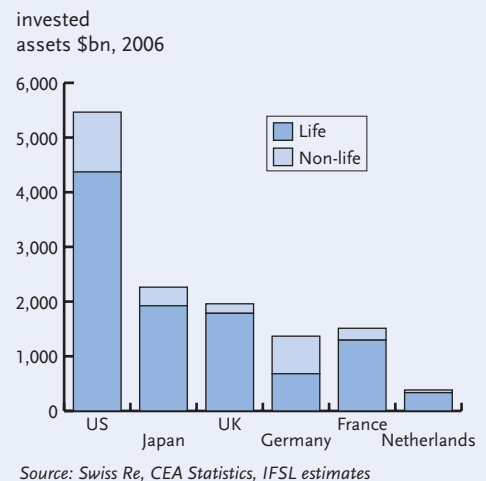


Table 17 Largest life insurance companies

2006	Country	Revenues \$bn
1	ING Group	Netherlands 158.3
2	AXA	France 139.7
3	Assicurazioni Generali	Italy 101.8
4	Aviva	UK 83.5
5	Prudential	UK 66.1
6	Nippon Life Insurance	Japan 56.6
7	CNP Assurances	France 55.6
8	MetLife	US 53.3
9	Aegon	Netherlands 45.9
10	Dai-ichi Mutual Life Insurance	Japan 40.1

Source: Fortune, Insurance Information Institute

usually by selling life insurance through their client bases initially, but expanding later into general insurance. Latest available data shows that in 2004, Portugal and Brazil were the most developed markets in bancassurance with around 80% of life insurance premium income generated through this distribution channel. Spain, Belgium, Italy and France followed with over 60%. The UK's total was around 15%.

Insurance brokers

During the early and mid 1990s there was a great deal of merger and acquisition activity resulting in the creation of a few very large brokers. The two largest, Marsh and Aon, acquired significant businesses around the world. In recent years the pace of consolidation has slowed amongst the major brokers although activity at the smaller end of the broker sector continues.

US firms dominated the rankings in 2006 with seven out of the top ten firms. Two are from the UK and one from South Africa (Table 19). Marsh & McLennan and Aon Corporation were by far the largest, generating over two-thirds of revenue of the top ten brokers. All of the largest firms have a substantial presence in London.

Despite the dominance of the largest brokers, niche players in the market have certain advantages such as flexibility and specialism. Over the next few years brokers should benefit from the growth in demand for specialist products, while EU accession should provide further opportunities for European brokers.

Reinsurance

Reinsurance is the cover insurers purchase to protect themselves against any large losses. Reinsurance emerged in the 19th century out of a need on the part of primary insurers to insure themselves against payment difficulties by means of a broad international distribution of their obligations. Since major risks are transferred to reinsurers, the primary insurer only needs to retain capital on its balance sheet to cover its share of the risk. Reinsurance therefore provides additional underwriting capacity.

Non-life insurance premiums generate around three-quarters of overall reinsurance premiums. This is because life insurance products mainly consist of savings which have a small insurance risk component and are therefore typically not reinsured. North America generated the largest share of global reinsurance premiums in 2005 with 57% of the total. It was followed by Europe with 34% and Asia/Australia with 6%. The London Market plays an important role in the global reinsurance market accounting for between 5% and 10% of global non-marine treaty reinsurance and a quarter of internationally available reinsurance.

Companies from Switzerland, Germany and the US dominate the rankings of the largest reinsurance groups. The reinsurance industry is highly concentrated with the top five reinsurers accounting for over half the market. Munich Re was the largest company in 2006 with \$26.4bn in reinsurance gross premiums, followed by Swiss Re Group with \$23.8bn and Berkshire

Table 18 Largest property/casualty insurance companies

2006	Country	Revenues \$bn
1 Allianz	Germany	125.4
2 American International Group	U.S.	113.2
3 Berkshire Hathaway	U.S.	98.5
4 Zurich Financial Services	Switzerland	65.0
5 State Farm Insurance Cos.	U.S.	60.5
6 Munich Re Group	Germany	58.2
7 Millea Holdings	Japan	36.1
8 Allstate	U.S.	35.8
9 Swiss Reinsurance	Switzerland	32.1
10 Hartford Financial Services	U.S.	26.5

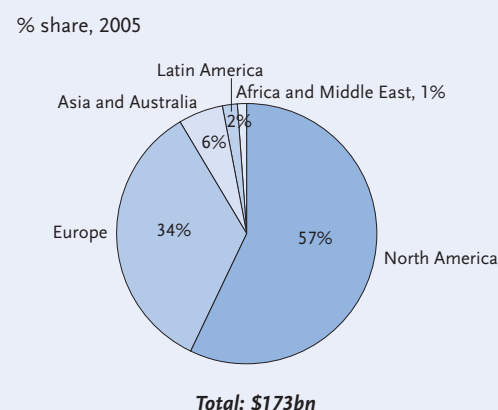
Source: Fortune, Insurance Information Institute

Table 19 Largest insurance brokers

2006	Country	Brokerage revenues (\$m)
Marsh & McLennan Cos. Inc.	US	10,000
Aon Corp.	US	6,522
Willis Group Holdings Ltd.	UK	2,194
Arthur J. Gallagher & Co.	US	1,351
Wells Fargo Insurance Serv. Inc.	US	959
Brown & Brown Inc.	US	882
Jardine Lloyd Thompson Group plc	UK	776
BB&T Insurance Services Inc.	US	757
Hilb Rogal & Hobbs Co.	US	682
Lockton Cos. L.L.C.	US	658

Source: Business Insurance

Chart 23 Gross Reinsurance Premiums



Source: International Association of Insurance Supervisors

Hathaway Group with \$12.6bn. Despite the dominance of largest companies, there are a number of smaller market participants which tend to concentrate on their home country. London is a premier reinsurance broking centre with a number of the top ten reinsurance brokers headquartered there. It is also the only place in the world where all 20 of the world's largest insurers and reinsurers have offices.

OTHER SOURCES OF INFORMATION:

Association of British Insurers

www.abi.org.uk

Insurance Institute

www.iii.org

International Underwriting Association

www.iua.co.uk

Lloyd's

www.lloyds.com

Office for National Statistics

www.statistics.gov.uk

SwissRe

www.swissre.com

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Data files

Datafiles in excel format for all charts and tables published in this report can be downloaded from the Research section of IFSL's website www.ifsl.org.uk

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