

European insurance enterprises at the dawn of the Single Market

1. Start of the Single Market on 1 July 1994

The European Single Market for insurance was created step by step. The first and second generations of EU insurance Directives for life and non-life insurance enterprises were followed by the third generation, which provided for extensive deregulation of the European insurance market beginning on 1 July 1994.

Insurance enterprises are since then under the only supervision of the relevant authority

in the home country (i.e. the Member State in which the insurance enterprise has its head office). This greatly facilitates access to markets in other Member States, enabling enterprises to operate with no great obstacles in the way of free provision of services as well as via branches.

In anticipation of Eurostat's comprehensive report, which is due to appear in mid-1995, this publication provides a brief initial overview of the situation in the insurance markets in the EEA prior to the opening of the Single Market. This report is restricted to a few, non-harmonized data relating to the 1992 reporting year and prior years.

The previous system of market regulation meant moreover that in most of the following data enterprises were double-counted, because under the principle of supervision of branches in the host country which was applied until mid-1994, branches were surveyed in both the host country and the home country.

From 1994 onwards, data relating to branches are to be collected only in the Member State in which the undertaking has

its head office. Under the new system of supervision, EEA branches will as a rule no longer be surveyed directly in the host country.

2. Enterprises and employment

Table 1: Number of enterprises / Employment 1992

Country	Number of insurance enterprises				Total Number (1)	Total number of employees
	Life insurance enterprises	Non-life insurance enterprises	Joint insurance enterprises	Specialist reinsurance enterprises		
B	43	169	54	na	266 (97)	27 920
DK	41	175	0	29	245 (49)	14 300
D	326	410	0	31	767 (82)	255 149
GR	25	121	32	na	178 (66)	10 000
E	68	315	84	7	474 (32)	46 803
F	147	467	0	20	634 (145)	123 800
IRL	31	65	0	na	96 (45)	10 118
I	71	162	26	9	268 (50)	48 253
L	34	32	2	173	241(24)	1 190
NL	97	673	na	17	786 (152)	58 500
P	24	54	9	1	88 (46)	14 941
UK	196	566	62	na	824 (141)	260 000
EUR12	1 103	3 209	269	287	4 868 (929)	870 974
A	6	29	32	3	70 (11)	32 744
FIN	16	31	0	9	56 (2)	11 000
IS	5	19	0	2	26 (0)	434
N	10	133	na	2	145 (22)	12 000
S	29	105	0	6	140 (12)	40 100
EEA	1 169	3 526	301	309	5 305 (974)	967 252
CH	30	93	0	19	142 (26)	37 313
USA	1 678	2 694	0	465	4 837 (45)	1 480 000
JAP	40	56	0	3	99 (47)	648 000

(1) The figures added in brackets concern the number of branches/agencies of insurance enterprises with head office in other EEA countries or in third countries.

Sources: OECD Insurance Statistics Yearbook 1985-1992, publication of the national Supervisory Authorities or Statistical Offices 1990-1992

In terms of structural indicators such as the number of enterprises and the level of employment, the United Kingdom, the Federal Republic of Germany and France have the largest insurance markets.

The UK insurance market, which is the largest in the EEA in terms of the above-mentioned indicators, is the third largest in the world (behind the USA and Japan), but considerably smaller than the two largest markets. In the EEA, the German and French insurance markets are in second and third place respectively.

However, the two above-mentioned indicators are of only limited use in assessing the real importance of a market, as the number of enterprises operating in the market of some countries, for example, includes many small insurance mutuals which are often only of local importance. This is especially true of the Federal Republic of Germany, the Netherlands, France, Norway or Denmark. A further example are the many specialist reinsurance enterprises registered in Luxembourg, which operate mainly as captives but whose market importance is often rather limited.

1994 onwards should see a considerable reduction in the some 5 305 registered enterprises in the EEA as a result of the above-mentioned double-counting (of about 900 branches, though the not very numerous branches of third countries such as the USA or Japan will be dealt with as before).

When this double-counting effect is eliminated from the above-mentioned figures, the aggregate data for the EEA countries are below the comparable data for the world's largest insurance market, the USA.

Enterprises in the USA as well as in Japan also have on average more employees than EEA enterprises (in Japan: 6 545 employees per enterprise; in the USA: 306 employees and in the EEA, 223 employees). A similar picture emerges with enterprise size, by looking at - with all its distortions - average gross premiums written from direct insurance per enterprise (in Japan ECU 2 400 million; in the USA: 96 million; in the EEA: ECU 71 million). The extreme size of enterprises in Japan stands in contrast to the roughly equivalent sizes of enterprises in the USA and the EEA.

The level of concentration in individual markets therefore varies greatly. Up to now the insurance markets in the EEA States have tended to develop separately, allowing a multitude of small and medium-sized enterprises to maintain themselves in the market. With the expected rise in the intensity of competition as a result of the deregulation measures which have been decided on, it can be assumed that there will be a fall both in the number of market operators and in the employment level.

3. Turnover and productivity

Table 2: Gross direct premiums written 1992, average yearly growth rate 1990-1992

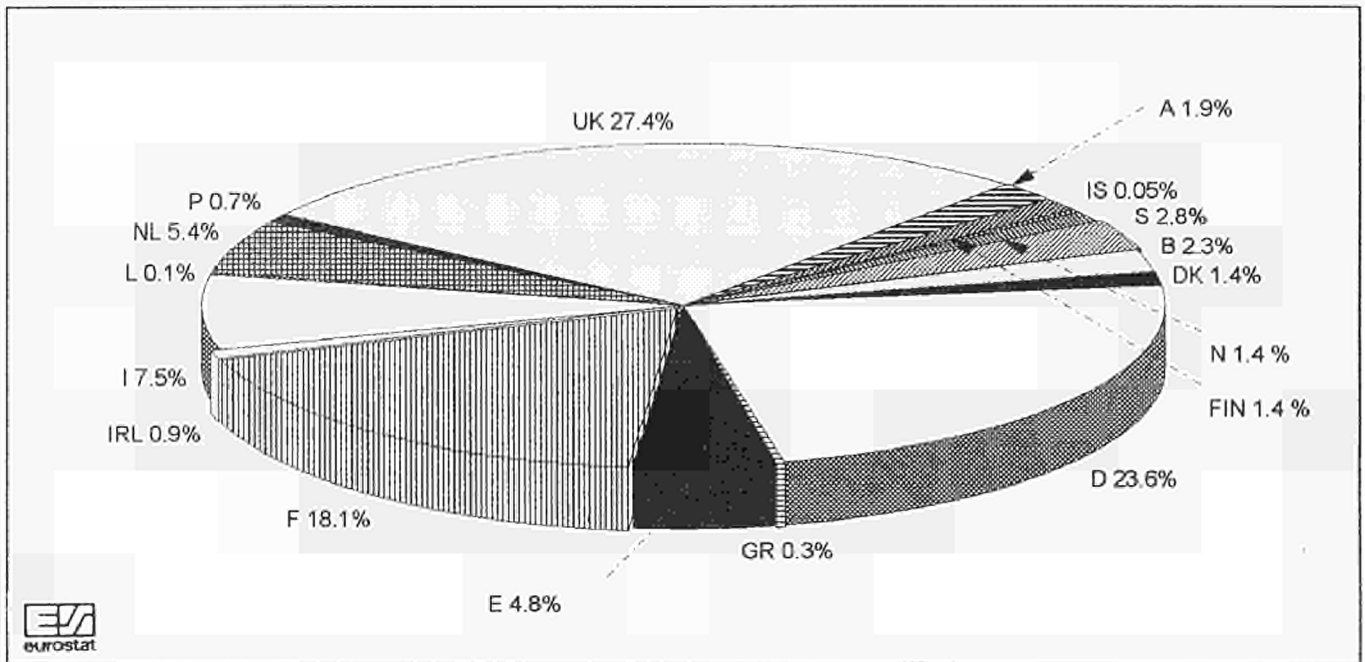
Country	Life Insurance Enterprises		Non-life Insurance Enterprises		Total	
	Mio. Ecu	Average yearly growth rate	Mio. Ecu	Average yearly growth rate	Mio. Ecu	Average yearly growth rate
		1990 - 1992		1990 - 1992		1990 - 1992
		%		%		%
B	2 914	9	5 623	9	8 537	9
DK	2 464	14	2 843	2	5 307	7
D	36 055	11	52 852	14	88 907	13
GR	531	na	571	na	1 102	na
E	6 125	22	12 120	13	18 245	16
F	38 469	15	29 762	6	68 231	11
IRL	1 706	-5	1 592	11	3 298	2
I	7 840	17	20 586	11	28 426	13
L	140	13	295	11	434	12
NL	11 126	10	9 191	6	20 317	8
P	717	37	1 753	20	2 470	24
UK (1)	59 256	12	44 166	13	103 422	12
EUR12	167 342	13	181 353	11	348 695	12
A	2 204	5	5 031	9	7 235	8
FIN (2)	3 536	-13	1 878	-9	5 414	-12
IS	6	13	172	10	178	10
N	1 976	18	3 170	0	5 146	6
S	5 579	3	4 935	9	10 514	6
EEA	180 644	14	196 538	11	377 182	12
CH	9 353	8	6 802	3	16 155	6
USA	171 846	1	290 174	3	462 020	3
JAP	179 610	10	58 045	8	237 655	10

(1) Life insurance figures are using net premiums written, which however are not very different from the gross ones.

(2) Recession, changes in the currency rates and transfer from private insurance to social insurance have been causing this rather uncommon negative development.

Sources: OECD Insurance Statistics Yearbook 1985-1992, publication of the national Supervisory Authorities or Statistical Offices 1990-1992

Figure 1: Shares in the EEA insurance market 1992 (shares of gross direct premiums written by country)



In terms of gross premiums from direct insurance business for 1992, the largest shares of the EEA insurance market are again accounted for by the markets of the United Kingdom, the Federal Republic of Germany and France, which between them took in nearly 70% of premiums written in EEA States. Bringing up the rear are Greece, Ireland, Luxembourg, Portugal and Iceland, which together account for only 2% of the total EEA market.

As a result of the strong position of specialist reinsurers, reinsurance business in the EEA is also predominantly conducted in the United Kingdom, the Federal Republic of Germany and France.

The level of total direct premiums written by EEA enterprises is not quite as high as in the American market (ratio: 81%). Japanese

enterprises, however, write only around half of the premiums that American and EEA enterprises do (51% of the premiums written in the USA; 63% of those in the EEA).

The growth rates of most EEA insurance markets were relatively high - influenced by special factors. The market for life insurance, in particular, was able to buck the economic trend in many countries and often achieve double-digit growth rates. Political factors in some countries - in some cases arising from the increasing difficulties of the statutory social security systems - have led to explosive growth in life insurance. This trend should continue in the coming years, not least because the measures taken to deregulate the European market will make it much easier to launch new products in those countries which have until now strictly controlled the products on the market (e.g. Federal Republic of Germany).

The situation for life and non-life insurance varies markedly in individual EEA markets. In economies where a considerable proportion of provision for old age is arranged through the private insurance sector, the proportion of life insurance premiums in total premiums is of course relatively high (e.g. in terms of direct premiums, 57% in the United Kingdom; 52% in Ireland and 65% in Finland). The reverse situation applies in, for

example, the Federal Republic of Germany, Italy or Iceland.

4. Overall economic importance

Table 3: Economical importance of the insurance industry

Country	Gross premiums written per head (ECU) (1)		Gross premiums written in % of the GDP (1)	
	1990	1992	1990	1992
B	717	848	4.74	5.05
DK	905	1 024	4.56	4.82
D	877	1 103	5.92	5.93
GR	na	106	na	1.83
E	351	466	3.54	4.11
F	975	1 186	5.90	6.69
IRL	903	926	9.11	8.52
I	389	499	2.61	3.01
L	909	1 099	4.92	5.29
NL	1 165	1 333	7.83	8.21
P	163	250	2.99	3.32
UK	1 424	1 784	10.68	12.84
EUR12	807	1 005	5.84	6.43
A	791	915	4.96	5.05
FIN	1 414	1 071	6.50	6.61
IS	572	677	3.04	3.49
N	1 086	1 197	5.53	5.89
S	1 102	1 210	5.26	5.51
EEA	810	1 011	5.70	6.41
CH	2 139	2 339	8.10	8.65
USA (2)	1 738	1 812	10.18	10.07
JAP (2)	1 594	1 911	8.54	8.39

(1) The gross direct premiums written have been used.

(2) The average population for 1992 has been used.

Sources: OECD Insurance Statistics Yearbook 1985-1992, publication of the national Supervisory Authorities or Statistical Offices 1990-1992, Basic Statistics of the Community, 31st Edition

5. Outlook

Despite the weak economic situation in many EEA States, both per-capita expenditure on direct insurance and premiums continue to rise in relation to gross domestic product at market prices (comparable EEA figures for 1991: pro-capita expenditure: ECU 932; premiums/gross domestic product: 6.09%). EEA insurance markets thus grew faster than population and GDP.

As in the case of other indicators, however, there are considerable variations within the EEA. Pro-capita premiums are by far the highest in the United Kingdom particularly as a result of the high level of life-insurance business (often for private provision for old age). Greek citizens, on the other hand, spend only ECU 107 a year on private insurance, a mere 6% of a UK citizen's average expenditure. The figures for Italy, Spain and Portugal are also comparatively low - mostly as a result of the below-average size of their life-insurance market.

Citizens in Switzerland, the USA and Japan, however, spend on average much more on private insurance than do EEA citizens. A comparatively high proportion of social security insurance (mainly life and sickness insurance) has been taken over there by the private sector. Switzerland has traditionally been in the number one position in this respect for many years.

The economic importance of the insurance sector in these countries is also much greater than the EEA average. Only in the United Kingdom is the insurance sector of greater economic importance.

Considering the very high growth of the insurance sector in the past, it can readily be assumed that the sector will also be among the growth sectors of the economy in the future.

Several factors will determine this future development. On the one hand, in many countries the trend will certainly continue towards a reduction in the State social security system, with services being taken over by the private sector, mostly on a voluntary basis for the citizens. On the other hand, a whole series of EEA markets appear to have a considerable amount of catching up to do, especially for life insurance. Some of these markets have seen particularly dynamic growth in recent years (e.g. Spain, Portugal and Italy).

In the near future, however, rising premiums will certainly not mean an increase in employment levels and the number of independent insurance enterprises, because the measures deregulating the insurance market from 1994 onwards will lead to a fundamental restructuring of markets in those countries which have operated under comparatively tight regulation in the past.

Increased competition will squeeze company profitability in many countries. Enterprises will be forced to restructure in order to adjust to the new market conditions, by, for example, reducing costs, merging or repositioning themselves in the market.

For consumers, increased competition should also mean a wider choice of insurance products as well as lower prices.

One thing is nevertheless certain: The insurance sector is on the brink of fundamental change in many EEA States and in the medium term this will result in a greatly changed landscape in the insurance market.

