

MS17/2.2: Annex 1

## Market Study

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# Wholesale Insurance Broker Market Study

Final Report: Annex 1 - Supplementary material to  
support the competitive landscape and market  
outcomes assessment

February 2019

# Annex 1: Supplementary material to support the competitive landscape and market outcomes assessment

## Introduction

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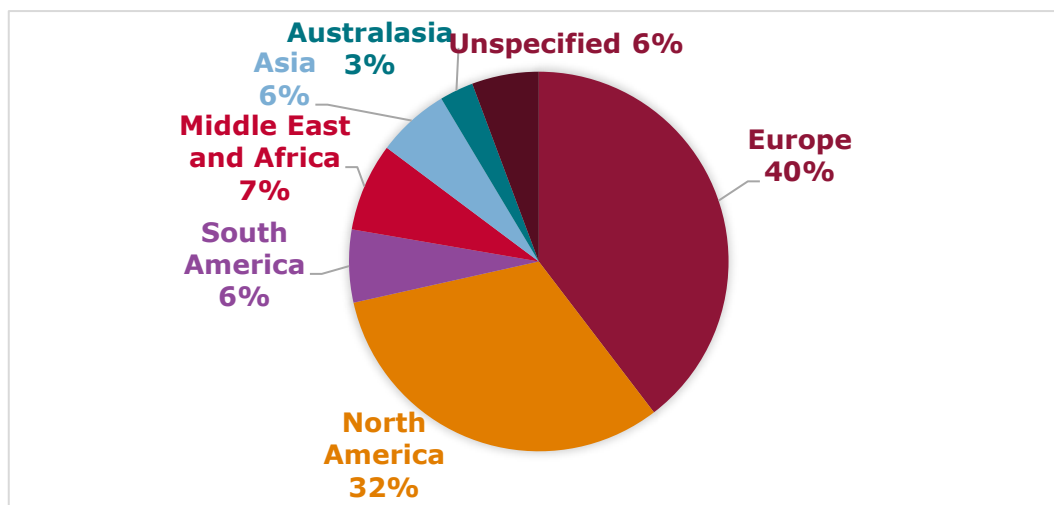
1. The [Wholesale Insurance Broker Market Study](#) seeks to understand whether competition in the London broking industry works effectively. To do this the market study focuses on several areas of potential concern, one of which is the extent to which market power may be affecting outcomes in the market (see Chapter 3 of the Final Report).
2. To assess the competitive landscape, we have considered a range of evidence from several different pieces of analysis. This Annex provides supplementary analysis to that set out in Chapter 3 of the Final Report, in particular in relation to:
  - the assessment of market definition ('Risk location' section)
  - the market concentration analysis ('Broker market shares using insurers data' section, 'Insurer concentration' section, and 'Broker market concentration at the generic risk-class level' section)
  - the demand-side analysis ('Quality and non-price outcomes' section)

## Risk location

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3. In this section of this Annex, we present the results of our analysis of the geographic provenance of brokers' risks. This analysis is relevant for our geographic market definition analysis (see 'Geographic dimension' section of Chapter 3 of the Final Report). We show here that LIM brokers' revenues are globally diversified, which supports the conclusion that brokers operating in the LIM face constraints from other global insurance centres.
4. Figure 1 shows that in 2016 around 72% of the revenues of LIM brokers in our sample were generated by placing risks located in either Europe or North America. This is based on data submitted by brokers.

**Figure 1:<sup>1</sup> Brokers’ revenues in 2016 broken down by the location of the risk insured.**



Source: FCA analysis of broker data request.

- Responses to our customer survey also provide information on risk location. The largest group of respondents to our customer survey were multinational firms, followed by UK and Ireland-based firms, and firms based in the rest of Europe. A small minority of firms operated in other geographical regions. However, response bias could explain this pattern.

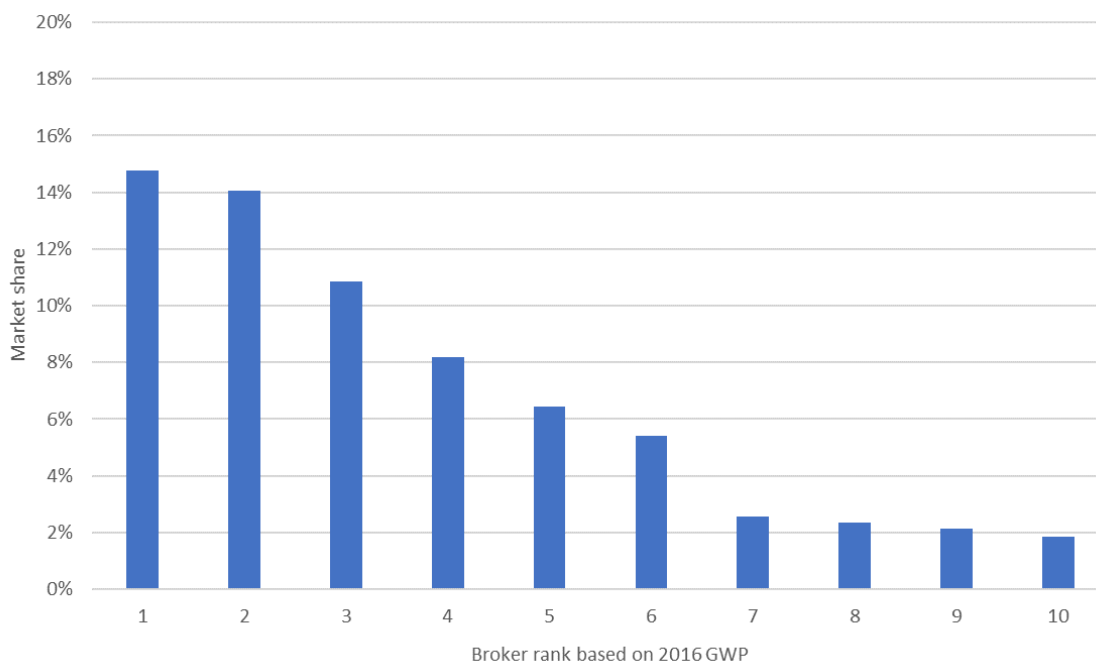
### Broker market shares using insurer data

- In this section, we present LIM brokers’ market shares across all risk classes, estimated using data received from insurers. This analysis tests the robustness of our assessment of market shares based on brokers’ data, which is set out in Chapter 3 of the Final Report.
- We set out below estimated market shares of the 10 largest brokers by GWP using data received from the insurer data request (Figure 2). This chart provides a similar picture to the information provided in Chapter 3, though estimated market shares are slightly lower using insurer data.<sup>2</sup>

<sup>1</sup> Around 60 brokers were able to split revenues by risk location.

<sup>2</sup> We would not expect the 2 figures to be identical as both are based on non-random samples, of brokers and insurers respectively.

**Figure 2: Relative market share based on GWP for the largest 10 brokers, all risk classes combined, using insurer data, 2016<sup>3</sup>**



Source: FCA analysis of insurer data request.

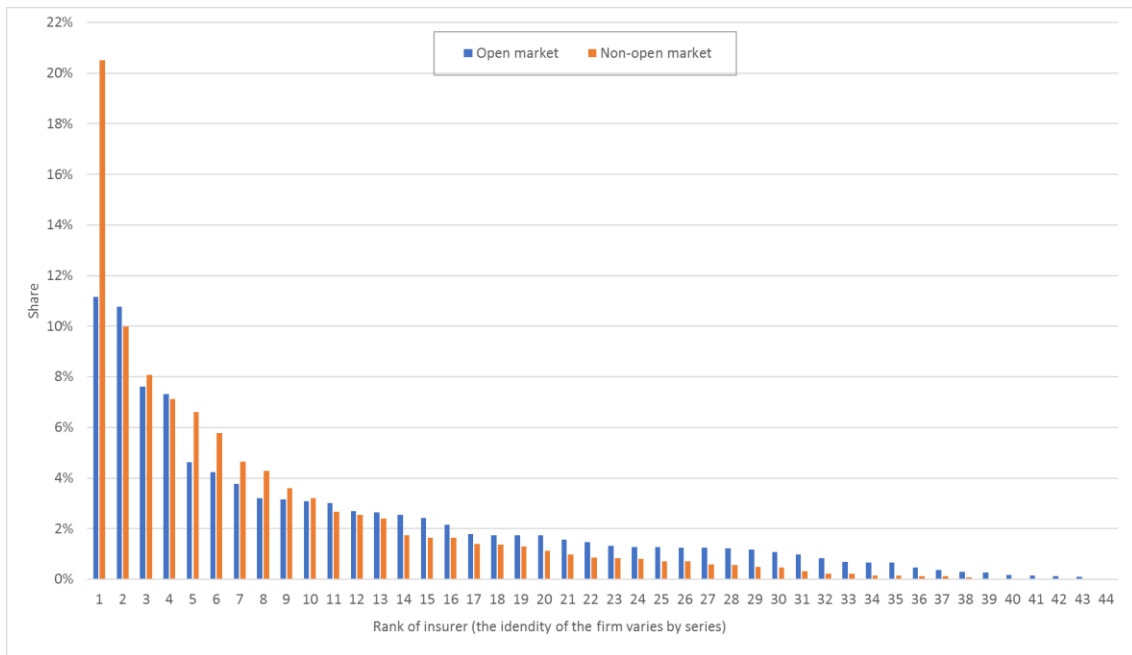
## Insurer concentration

8. We present our analysis of market shares of insurers below. This analysis provides a useful complement to the analysis of the concentration of the broking market because concentration among insurers could be associated with higher insurance premiums for customers, or worse claims repayment or other conditions.
9. The analysis below shows that LIM underwriting sector appears to be relatively less concentrated than the LIM broking sector. This supplements our findings on market power in the LIM (see Chapter 3 of the Final Report).
10. Overall, the wholesale insurance underwriting market does not appear to be highly concentrated. Figure 3 sets out the relative market share of insurers by GWP among the insurers that responded to our data request, split by open and non-open<sup>4</sup> market business. Non-open market business is more highly concentrated than open market business, driven by the largest underwriter that has a market share of over 20%.

<sup>3</sup> As with market shares in Chapter 3, the figures here are described as relative as they are derived from a sample of insurers, not the population.

<sup>4</sup> As per our glossary, open market refers to risks that are individually negotiated and placed. Non-open market refers to risks placed under facilities and binding authorities, including line slips and market follow facilities.

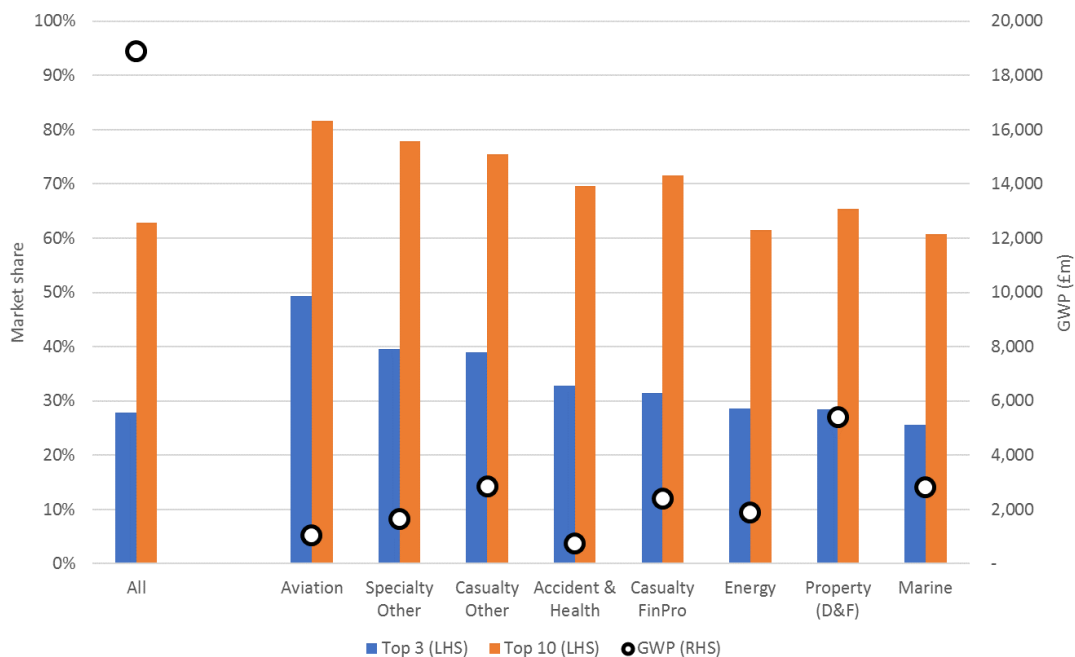
**Figure 3: Relative market share of insurers’ open market and non-open market GWP, 2016**



Source: FCA analysis of insurer data request.

11. Figure 4 shows insurer market shares for each high-level risk class.<sup>5</sup> Aviation is the most concentrated class, and marine the least concentrated. In terms of high-level risk class, the wholesale insurance underwriting market appears to be less concentrated than the broking market (see Chapter 3).

**Figure 4: Relative market share of largest 3 and largest 10 insurers by GWP by high-level risk class, and total GWP of risk class, 2016**

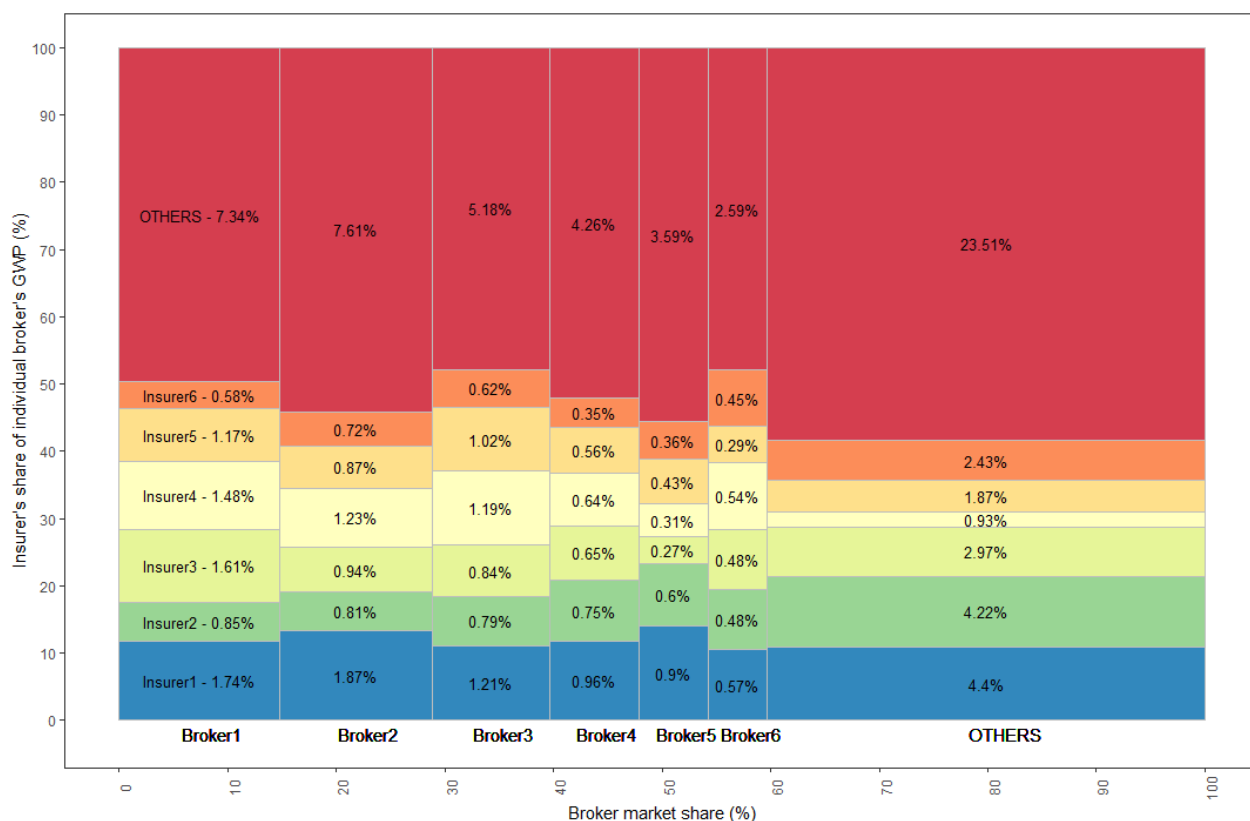


Source: FCA analysis of insurer data request.

<sup>5</sup> See Annex 7 for a description of this data. Like for brokers, concentration is based on relative market shares based only on our sample of insurers, providing a likely overestimate of market shares.

12. Figure 5 shows an overview of the wholesale broking market and the interplay of the largest brokers and insurers. The total area of the chart represents the total GWP reported by insurers, and the area of each block (and label) represents the fraction of total GWP accounted for by that insurer-broker pair. We group insurers and brokers ranked below the sixth largest position into 'Others'. In total, around 30% of total GWP is made up of the largest 6 insurers in our sample interacting with the largest 6 brokers. Around 24% of the market involves neither a top-6 broker or top-6 insurer. The analysis suggests a relatively equal bargaining position between the largest brokers and largest insurers, though the effect on outcomes for customers is unknown.

**Figure 5: Relative market shares among the largest 6 brokers and 6 insurers, 2016<sup>6</sup>**



Source: FCA analysis of insurer data request.

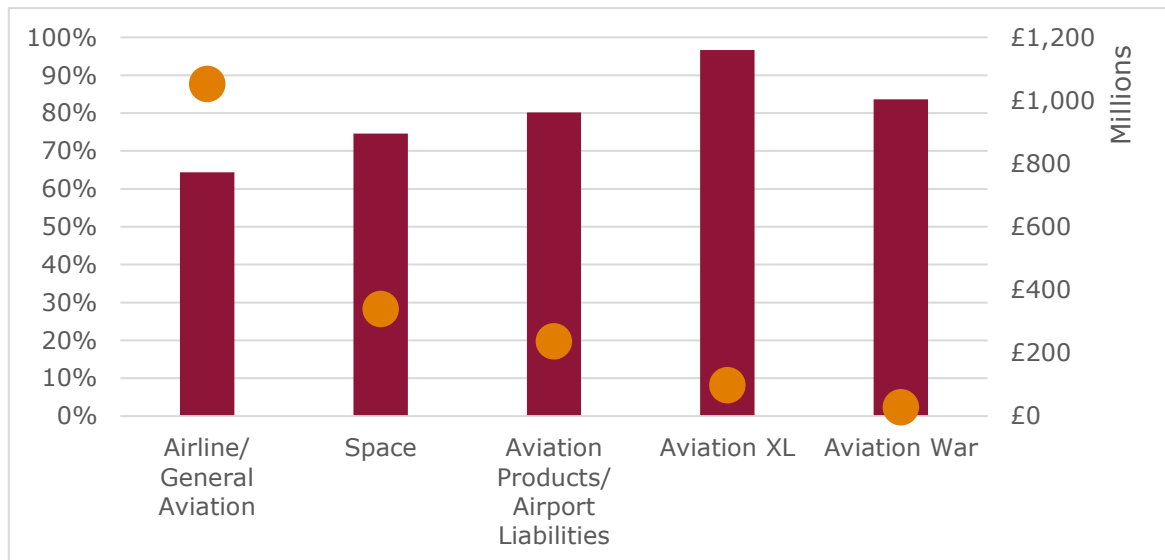
### Broker market concentration at the generic risk-class level

13. The following section presents estimated market shares of brokers at the generic risk class level, a lower granularity of risk than presented in the 'Market concentration analysis' section of Chapter 3 of the Final Report. We define generic risk classes as an intermediate risk classification, more granular than high-level risk classes but less granular than risk codes.
14. This analysis is based on the policy-level data provided by 26 brokers (market shares at high-level risk class are calculated on a larger sample). While the sample of 26 brokers includes the largest firms, it is possible that some small firms specialising in a niche segment are excluded. As a result, the sum of the relative market shares of the 2 largest brokers in a segment is an overestimate, because every additional firm would automatically decrease the share of the 2 largest brokers.

<sup>6</sup> Insurers and brokers who are ranked higher than six in terms of gross written premium in 2016 are grouped into 'Others'.

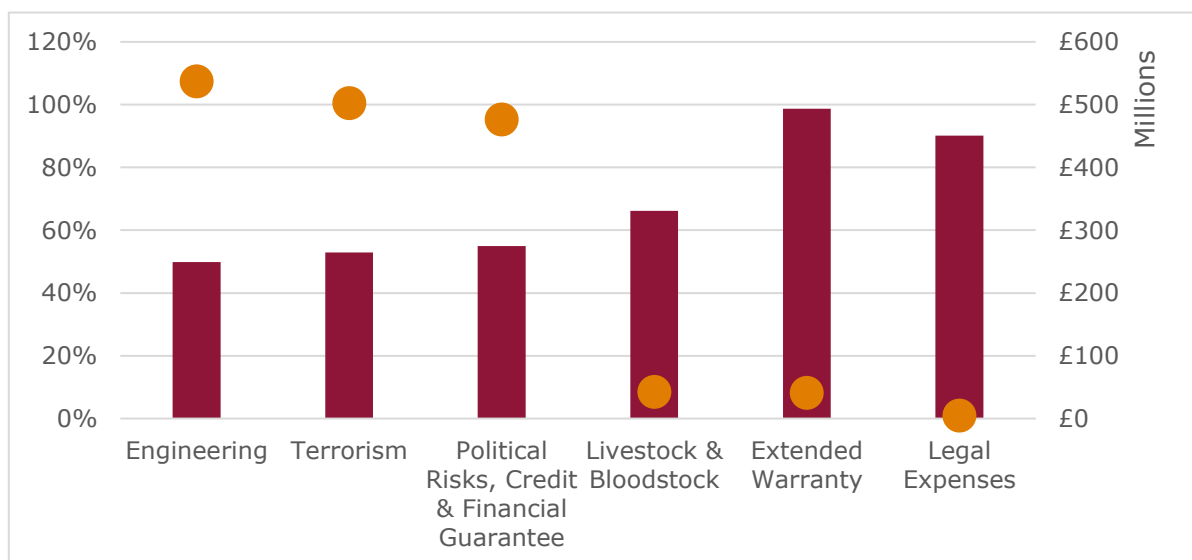
15. Our analysis of market concentration at a more granular risk level shows a similar picture to high-level risk classes, with pockets of high concentration. For example, Figure 6 shows that in the Space risk class the 2 largest brokers have a combined share of almost 80%, and in Aviation Excess of Loss the 2 largest brokers have a combined share above 90%. Note that the overall value of Aviation Excess of Loss policies is relatively small compared to, for example, Airline/General Aviation.<sup>7</sup>

**Figure 6: Relative market share of largest 2 brokers by GWP by Aviation generic risk class, and total GWP of risk class, 2016**



16. Figure 7 shows the relative market shares of the 2 largest brokers in 'specialty other' generic risk classes. The largest generic risk classes such as Engineering and Terrorism show lower levels of concentration compared to smaller generic classes such as Legal Expenses.<sup>8</sup>

**Figure 7: Relative market share of largest 2 brokers by GWP by Speciality Other generic risk class, and total GWP of risk class, 2016**



<sup>7</sup> We combined Airline and General Aviation because several brokers did not provide data at generic risk class level.

<sup>8</sup> The majority of Extended Warranty and Legal Expenses policies are placed in facilities or MGAs.

17. In addition, the number of brokers active in different generic risk classes varies. Among the 26 brokers that report policy-level information at the generic risk class level, the generic risk classes with the highest number of brokers are Terrorism (19 brokers) and Direct Accident and Health (19), followed by Airline/General Aviation, Cargo and Medical Malpractice. Generic risk classes reported by fewer brokers include Power Generation (3 brokers), Nuclear (3) and Extended Warranty (5).
18. Overall, in 32 out of the 44 generic risk classes (for which we have data) the 2 largest brokers have a combined share of more than 60%. The share of the 2 largest brokers tends to be smaller in the larger (in terms of GWP) generic risk classes, and larger in the smaller generic risk classes.
19. At a more granular level, there is also some tentative evidence of segments that are less contested than others. Eight brokers report policy-level information at the risk-code level. Out of 147 risk codes, 86 are reported by only 1 or 2 brokers, whereas 34 of the risk codes are reported by 4 or more of the sample of 8. The small sample means it is difficult to draw conclusions, however.
20. Some of the most concentrated classes are relatively small. A few large generic class are very concentrated. However, as detailed in Annex 2, we have not found that higher concentration at generic risk class level is generally associated with higher broker remuneration as a percentage of GWP.

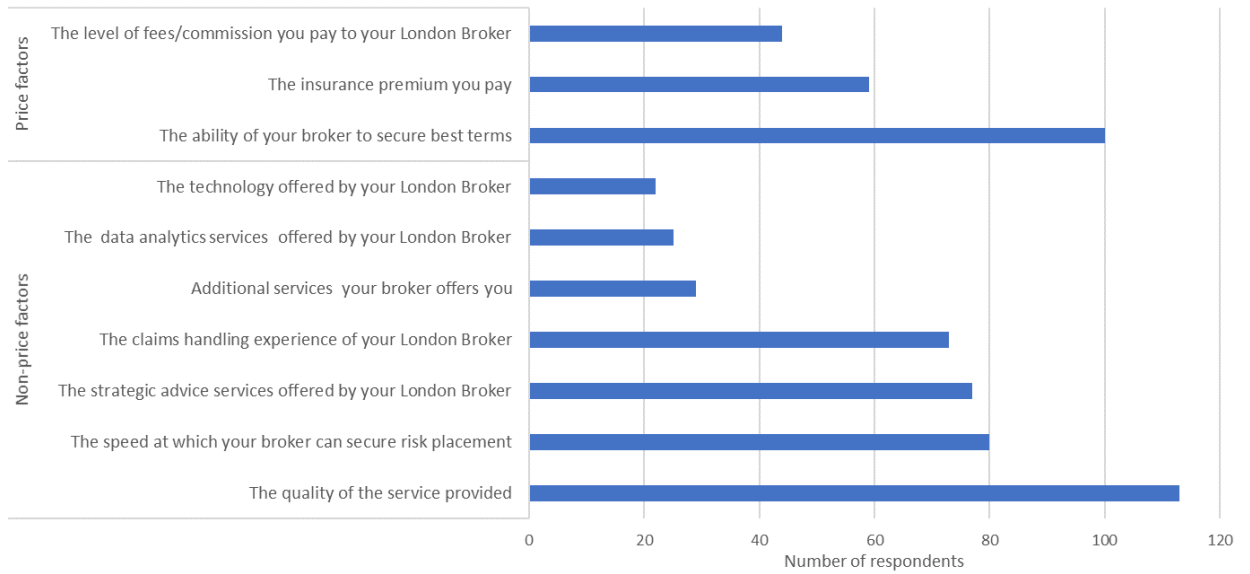
## Quality and non-price outcomes

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21. This section provides evidence on end-clients' priorities in evaluating brokers' services. This analysis of the determinants of broker choice complements the analysis in the 'Demand-side constraints on market power' section of Chapter 3 of the Final Report.
22. Non-price factors appear to influence clients' choice of broker. Among the firms that responded to our client survey, a relatively large proportion (113 out of 172) reported the quality of the service provided to be an important factor in their choice of broker (Figure 8). This was of comparable magnitude to the number of respondents that reported the ability of the broker to secure the best terms (100), and knowledge/experience of the broker and reputation of the broker (130 and 109 respectively, not shown). Other factors that were reported as important by a relatively large proportion of clients included the speed of risk placement, strategic advice services and claims handling experience. By contrast, data and analytics services, technology and additional services were less commonly rated as drivers of choice of broker.



**Figure 8: Client survey responses (selected) to the question: What factors were important to you when you chose your London Broker? (Please check all that apply). Total respondents = 172.**



Source: FCA client survey.

- This analysis shows that non-price factors are frequently considered by end-clients when assessing their brokers’ services. Therefore, quality and non-price factors are likely to be relevant aspects of competition among brokers.

