Association of British Insurers

UK Insurance and Long-Term Savings
The state of the market

abi.org.uk

@BritishInsurers

Contents

Welcome

Huw Evans
Director General

It is a pleasure to introduce the ABI's first State of the Market publication. Having detailed market data to inform our policy positions and illustrate our arguments is a must-have in our dealings with ministers, policymakers, regulators and customers.

Over the last two years, we have fundamentally modernised our Data & Analytics work under Matt Cullen's leadership to produce more timely analysis as well as raw data. This publication is the next step in using that analysis to inform debate to the benefit of all.

I hope you find this a stimulating read and a useful reference point for your work in the months ahead. We hope this is the first publication of many and that you will continue to let us know what you need from our Data & Analytics work as we all navigate this fast-changing world together.

About the ABI

The Association of British Insurers is the voice of the UK's world leading insurance and long-term savings industry.

A productive, inclusive and thriving sector, we are an industry that provides peace of mind to households and businesses across the UK and powers the growth of local and regional economies by enabling trade, risk taking, investment and innovation.

Introduction

Matt Cullen
Assistant Director, Head of Strategy, Data & Analytics

Welcome to our State of the Market report. Building on our annual Key Facts summary document, this more detailed report uses the ABI's wide range of data on the UK insurance and long-term savings market to paint a picture of the key trends affecting our sector, and considers the reasons behind them. The ABI statistics used are freely available to ABI members on our website (www.abi.org.uk), and can be purchased by non-members in a range of different subscription packages.

Over the last two years – the period to which data used in this report relates – a wide range of forces have been exerted on the UK insurance and long-term savings market. Long-term savings firms have continued to adjust to a world of auto-enrolment and pension freedoms, while general insurers have been stung by the 2017 reduction of the Ogden discount rate on the one hand, but helped by a soft reinsurance market and benign weather on the other. Across the industry, companies have had to adjust to a new prudential regulation regime – Solvency II, have engaged with a wide range of conduct regulation issues, and have begun detailed planning for Brexit. This is not to mention the broader long-term trends impacting firms – the accelerating digital revolution, the shifting dynamics of the global economy, an ageing population etc.

While the market has inevitably been affected by all of these forces, our industry's role in society remains steadfast. From London to Liverpool, and indeed from Lagos to Los Angeles, the UK insurance industry is helping families and businesses thrive by managing risk and providing long-term security and stability. The ABI's Helping Britain Thrive campaign, launched in 2017, sets out the industry's contribution to UK society – employing hundreds of thousands of people, paying billions in taxes and, as shown in this report, writing more insurance and savings business than ever before.

We are always keen to engage with industry participants and analysts on the state of the market, so please do feel free to get in touch with any questions, or suggestions for future work.

Section 1
The UK insurance and savings market

By Daniel Sadler – Manager, Data & Analytics

The UK is one of the most prosperous and developed countries in the world. Residents enjoy a relatively high standard of living compared to the rest of the world; businesses benefit from competitive tax rates, a mature legal system and a well-educated workforce.

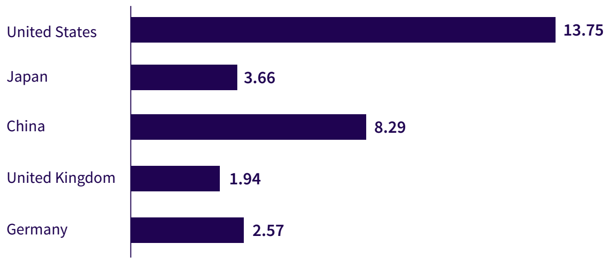
The UK Insurance and Long-Term Savings Industry plays a significant role in this, helping households safeguard their possessions and manage the risk of adverse life events, as well as safeguarding savings for their future. Businesses are better able to manage their risks and more efficiently deploy their resources with suitable insurance arrangements in place.

Economic context

Economic output

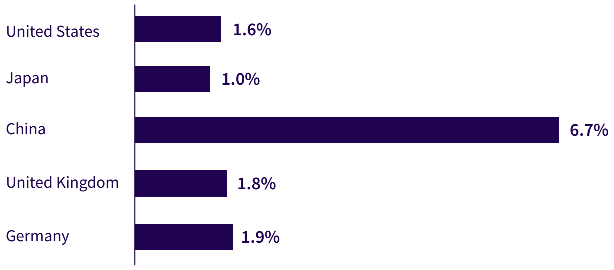
The UK has the fifth largest economy in the world, with a Gross Domestic Product (GDP) of just over £1.9 trillion in 2016[1]; only Germany, Japan, China and the USA have a larger output than the UK (see Figure 1).

Figure 1: World top five economies by GDP (£trillion, current prices)[2], 2016



UK GDP has continued to grow over recent periods, despite the long-term fallout from the 2007-08 recession and the UK's vote to leave the European Union. UK annual GDP growth for 2016 was 1.8%[3] ; however, this has since fallen to 1.5% for the twelve months preceding 2017Q3[4]. The 2016 estimate compares favourably to the other largest economies, with both the USA and Japan experiencing a lower growth rate than the UK.

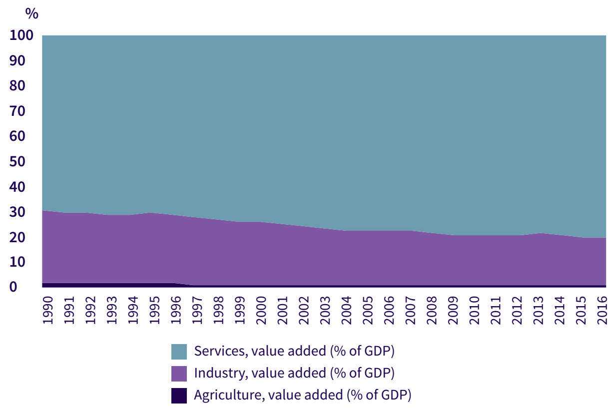
Figure 2: GDP growth, top five economies by GDP (%), 2016



Key industries

The UK economy is dominated by the services sector, which comprises 80% of total GDP; the next largest sector, manufacturing, comprises just 19% of GDP, with the remaining 1% being agriculture[5]. This structure has been relatively consistent for the UK over the last 25 years, with services accounting for 69% of GDP in 1990 and growing to current levels due to the gradual decline of UK manufacturing (see Figure 3).

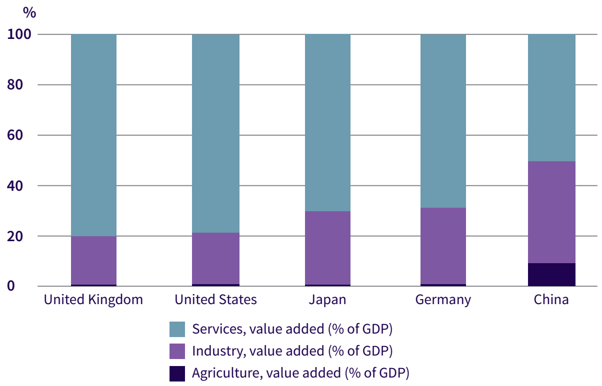
Figure 3: Output by main industrial sector in the UK (% of GDP, 1990-2016)



This structural composition is similar to that of the USA, where the service sector accounts for 79% of GDP; meanwhile, Germany and China both have a larger manufacturing sector in relative terms, with 41% of output in China from manufacturing industries (See Figure 4).

[1] ONS (2017) "Gross Domestic Product: chained volume measures: Seasonally adjusted £m",
[2] The World Bank (2017) "World Development Indicators: GDP Current US$ & GDP (current LCU)"
[3] The World Bank (2017) "World Development Indicators: GDP growth (annual %)"
[4] ONS (2017) "Time Series: Gross Domestic Product: q-on-q4 growth rate CVM SA% (PGDP)"
[5] The World Bank (2017) "World Development Indicators: Economy Structure"

Figure 4: Output by main industrial sector, largest five world economies (% of GDP, 2015)[6]

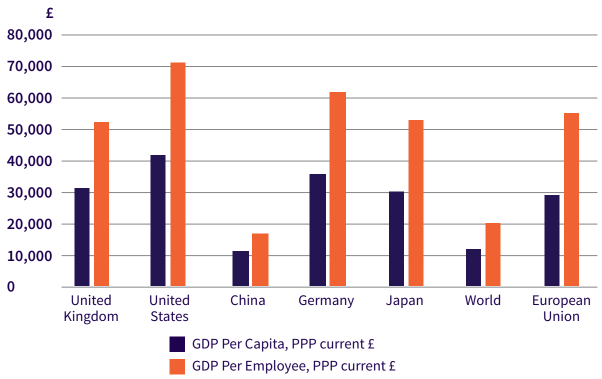


Population and productivity

The UK population is currently 65.6 million people[7]; this is significantly smaller than that of the other top five economies. Relative to GDP, the UK population compares favourably, with GDP per capita at just over £31,440 per person; Japan's equivalent sits at £30,307; however, the USA figure is significantly higher at £41,999[8].

Despite a relatively high GDP per capita, UK workers are less productive than their peers in the other largest economies. The average UK worker contributed £52,229 to the UK economy in 2016; by comparison, workers in Germany produced £61,753 a year, and US employees produced over £71,254 per year.

Figure 5: GDP per capita and employee productivity (£, 2016)



Employment in the UK, taken as the proportion of the population at working age and also working, is quite high compared to other developed countries at 74.2%; the average employment level for EU member states is currently 67.6% and 70% for the USA[9]. However, the UK lags well behind the OECD leader – Iceland – with 86.5%.

Meanwhile, the unemployment rate in the UK has dropped slightly from 5.4% in 2015 to 4.9% in 2016[10] - below levels seen immediately prior to the 2007-8 financial crisis.

Taxation

The UK remains one of the most competitive places in the world to base a company, with corporation tax rates currently at 19%[11] and scheduled to drop to 17%[12] in 2020. This is lower than any other country in the G7; corporation tax in the USA is over double that of the UK at 40%, with the next lowest after the UK being Canada at 26.5%. However, with Brexit looming in 2019, other European jurisdictions, such as Ireland and Liechtenstein with a corporate tax rate of just 12.5%, pose even more serious competition to the UK than they already do.

Figure 6: Corporate tax, top five insurance markets plus Ireland and EU average (%, 2017)

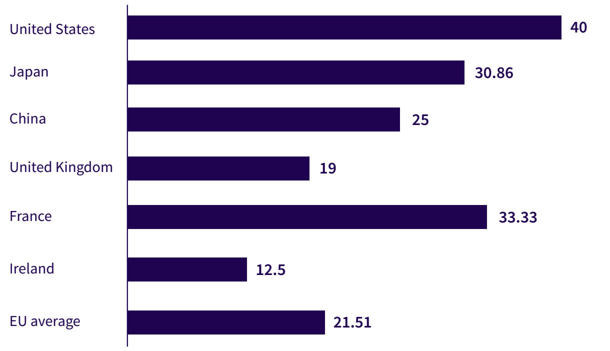
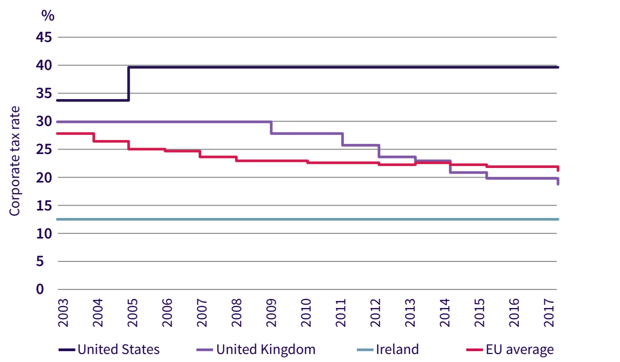


Figure 7: Corporate tax time series for the UK, USA, Ireland and EU average (%, 2003-2017)

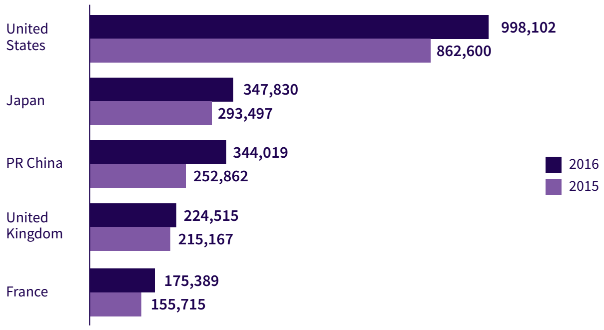


The world's fourth largest insurance market

The UK hosts the fourth largest insurance market in the world, and the largest in Europe, with a total premium volume in 2016 of just under £225 billion[13]. The world's largest insurance market is located in the USA, with a 2016 premium income of £998 billion – roughly four and a half times the size of the UK market.

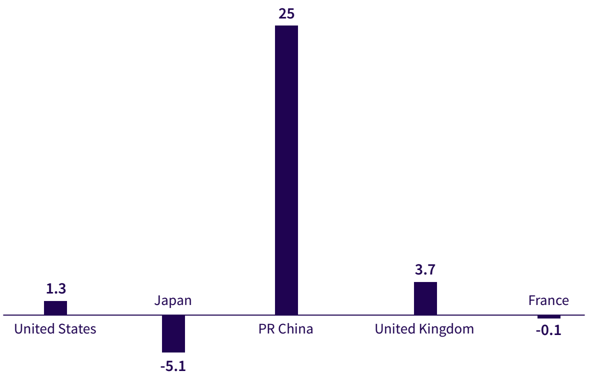
[6] The World Bank (2017) "World Development Indicators: Economy Structure"
[7] ONS (2017) "Article: Overview of the UK population: July 2017"
[8] The World Bank (2017) "World Development Indicators: GDP per capita (current US$)"
[9] OECD (2017) "Employment situation, second quarter 2017, OECD"
[10] ONS (2017) "Time series: Unemployment rate (aged 16 and over, seasonally adjusted)"
[11] KPMG (2017) "Corporate tax rates table"
[12] HM Treasury (2017) "Policy paper, Spring Budget 2017, Published 8 March 2017: 4.3 Business Tax"
[13] Swiss Re Sigma 3 (2017)

Figure 8: Top Five countries by Total Premium Income (£m, 2015 & 2016)



The UK market grew by just under 4% in real terms from 2015[14]. This is the second largest growth rate in the top five markets after China at 25% growth (see Figure 9), and the largest growth rate in the top five EU markets by some margin. Note, however, that when including the impact of depreciation of the pound compared to overseas currencies over 2016, this change appears significantly smaller than in some other EU states.

Figure 9: Inflation adjusted growth rate by market top five insurance markets(%, 2016)



Taking account of population and economy size when comparing the top five insurance markets paints a somewhat different picture. The UK has the second largest market in the top five relative to its population, with premiums per capita in 2016 at just under £3000 per person, just behind the USA at £3080 per person[15] (see Figure 10). The UK insurance market is also very large compared to the overall size of the economy, with UK premium volume equivalent to just over 10% of GDP (see Figure 11).

Figure 10: Insurance density: premiums per capita by business type (£, 2016)[16]

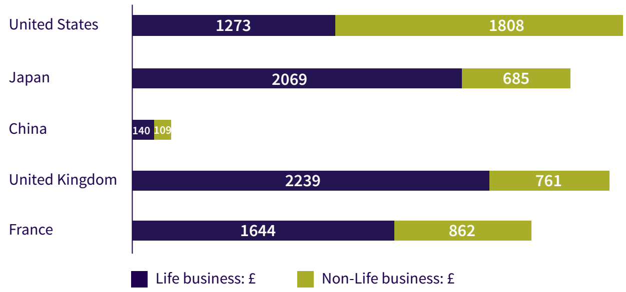
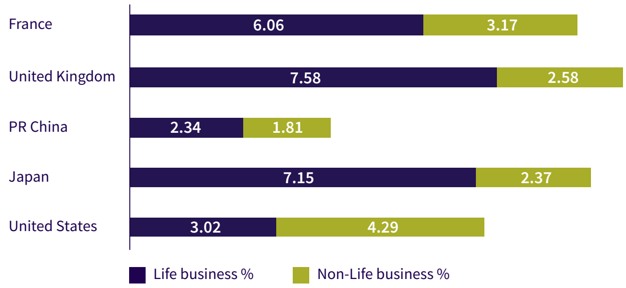


Figure 11: Insurance penetration: premiums as a % of GDP by business type (%, 2016)



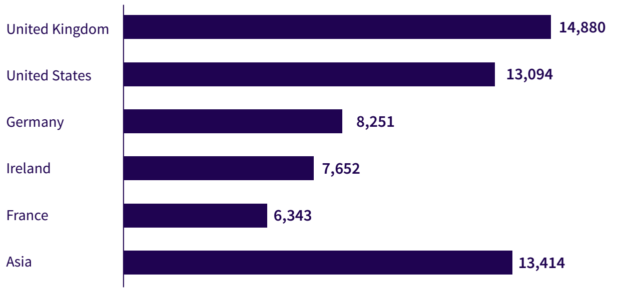
It is worth noting that certain significantly smaller markets eclipse the UK under the per capita and GDP equivalent measures; the Cayman Islands reports both the highest 2016 premiums per capita at £8975 per person, and the highest insurance penetration figure with premiums equivalent to 22.6% of GDP.

The world's largest insurance exporter

With such a large insurance market, it is perhaps unsurprising that the UK is a significant exporter of insurance services. In fact, the UK is the single largest exporter of insurance and pensions services in the world, exporting just under £15 billion[17] in 2016; this is more than the combined insurance and pensions exports of Asia (£13.4 billion), and significantly more than the next largest exporter, the USA, which exported just over £13 billion in 2016.

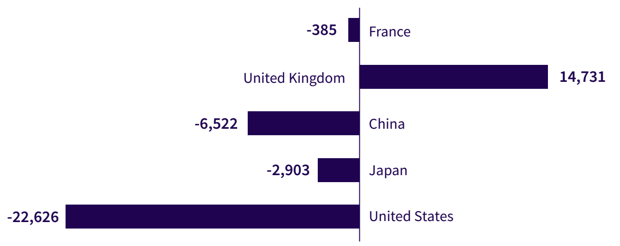
[14] Swiss Re Sigma 3 (2017)
[15] Swiss Re Sigma 3 (2017)
[16] The World Bank (2016) "GDP per capita (current US$)"
[17] WTO (2017) "Trade and tariff data"

Figure 12: Top five insurance exporters + Asia (£m, 2016)[18]



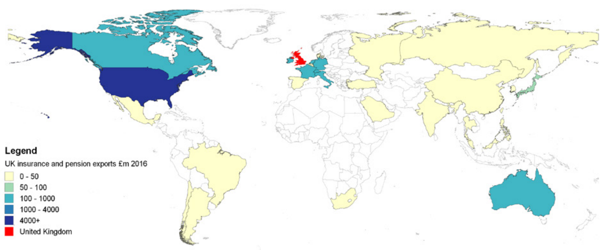
The UK insurance market also caters for the vast majority of domestic demand, importing just £149 million of overseas insurance and pensions business in 2016. Amongst the top five insurance markets, the UK is the only country with a positive trade balance (exporting more than it imports). By comparison, the USA imported just under £36 billion of insurance and pensions business in 2016.

Figure 13: Top five insurance markets – trade balance (exports minus imports) (£m, 2016)



The UK exports insurance and pension services to many different countries around the world. Its largest export market by far is the USA, with just under a third (31%)[19] of exports heading there in 2015 (see Figure 14). The UK actually exported more to the US than it did to Europe, with 28% of exports in 2015 going to EU28 countries.

Figure 14: UK insurance export destinations (£m, 2016)



[18] WTO (2017) "WTO-UNCTAD-ITC annual trade in services dataset"
[19] ONS (2016) "UK Balance of Payments, Pink Book 2016"

The UK insurance and savings market

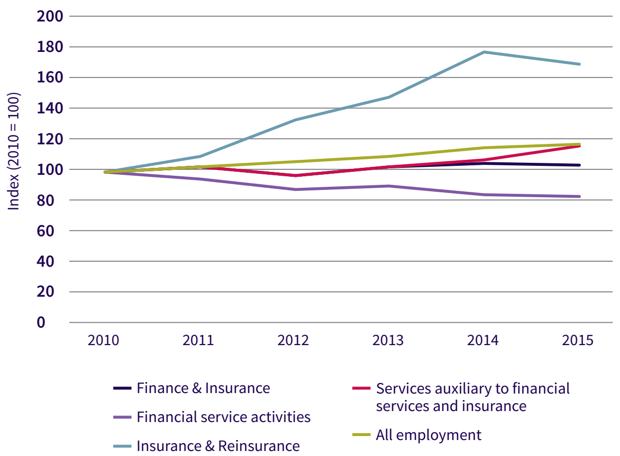
Contribution to the UK economy

The UK insurance and long-term savings industry is not only significant on the world stage; it also plays a significant role in the prosperity of the UK economy.

Economic output

The insurance and pensions sector is a significant contributor to UK output, adding between £42 and £45 billion in gross value to the UK economy in 2015. This includes £34 billion[20] from the core insurance and pensions sector, as well as approximately £8-11 billion from a variety of auxiliary professions that support the sector. Insurance and pensions account for roughly a third of output from the Financial Services sector.

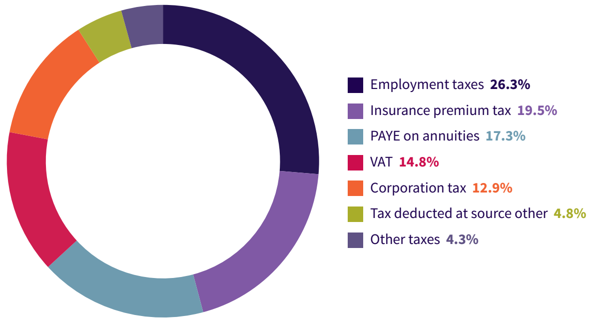
Figure 15: Growth in GVA for various UK sectors (2010=100, 2010-2015)[21]



Taxation

The UK insurance industry contributed approximately £11.8 billion in tax to the Exchequer in 2014 (excluding Lloyd's), equivalent to just under 2% of all Government tax receipts[22]. This figure includes a variety of taxes borne by the industry – including Corporation Tax, Business Rates, etc. – and tax collected by the industry on behalf of the Government – such as Insurance Premium Tax (IPT), PAYE on employees and annuitants, and so on.

Figure 16: UK Insurance Sector - tax contribution breakdown (%, 2014) [23]

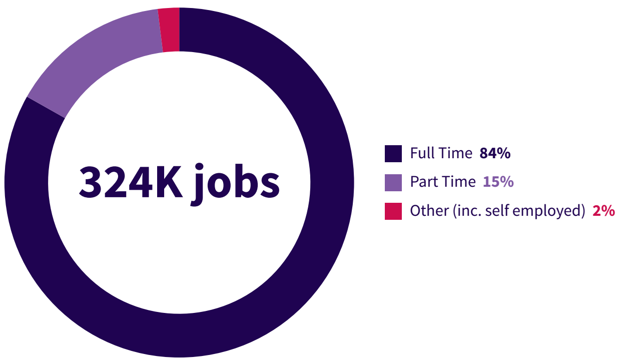


Insurance and pensions companies account for approximately 3.4% of all corporation tax receipts; they also pay a significant amount of VAT (approximately 30% of all taxes borne by the industry). This is a result of insurance products being VAT-exempt, with IPT charged instead; this therefore precludes insurers from recovering some of the VAT paid on their own expenses.

Jobs

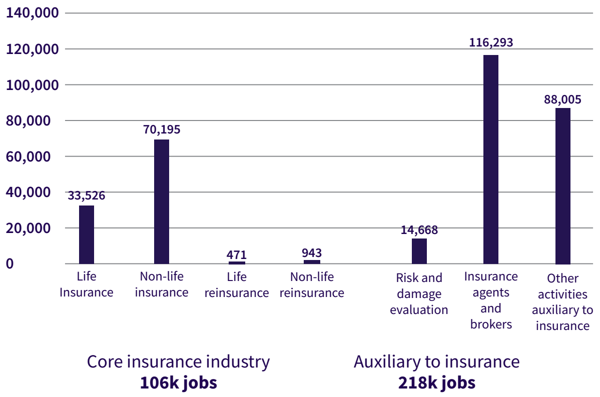
The insurance sector is also a very significant employer, with approximately 324,100 individuals employed by the sector in 2016. Just under a third of these employees (105,000) are directly employed by the sector, whilst a further 219,000 are employed in auxiliary services such as claims handling and broking (see Figure 17).

Figure 17: Employment in the UK insurance industry (%, 2016)[24]



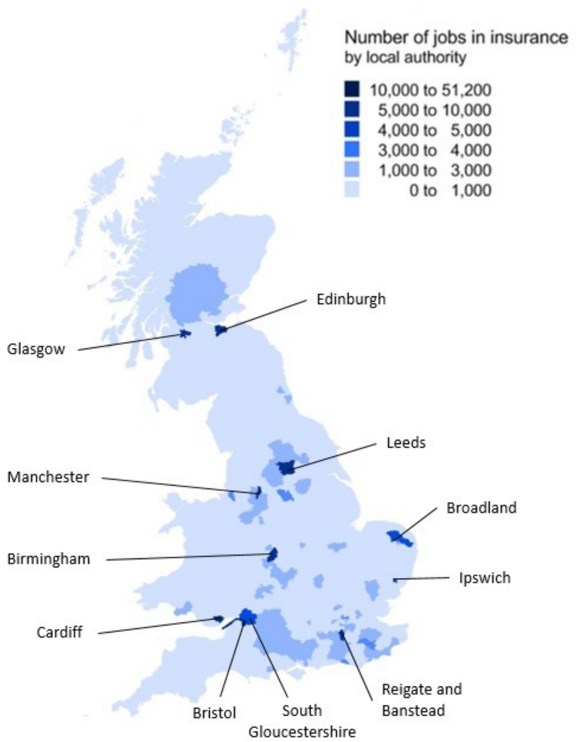
[20] ONS (2016) "UK National Accounts, The Blue Book: 2016"
[21] ABI (2017) "Helping Britain Thrive"
[22] Source: PWC, Total Tax Contribution of the UK Insurance Industry, 2014
[23] PWC (2014) "Total Tax Contribution of the UK insurance industry"
[24] ABI (2017) "Helping Britain Thrive"

Figure 18: Employment in the insurance industry (jobs, 2016)



As well as contributing to UK employment as a whole, insurers also contribute significantly to regional employment across the whole of the UK. Though the City of London has the highest regional employment with 51,000 jobs, there are many other key insurance employment hotspots including Leeds (18,000 jobs), Greater Manchester (15,000 jobs) and Bristol (11,000 jobs) – see Figure 19 for more detail. Overall, around two thirds of the sector's employees are based outside London.

Figure 19 Regional employment in the insurance industry (jobs, 2015)



Investing in the UK

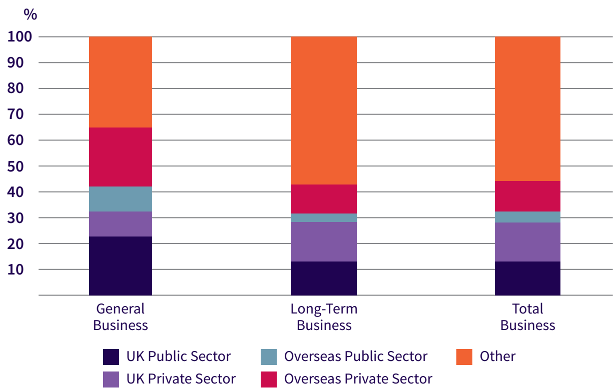
Insurers also contribute to the economy indirectly, with investments in Government debt, UK listed corporations and other assets enabling further output. As of 2016, UK insurance and pensions companies held a total of £1.7 trillion of investments – equivalent to just under 90% of UK GDP[26]. These investments include money managed on behalf of savers such as pension policyholders, insurance reserves and long-term investments to fund pension annuities.

Approximately £156 billion of these investments are held in UK Government debt – typically gilts of varying maturities – and a further £244 billion is invested in UK private sector securities (equities, corporate bonds, etc.) – see Figure 20.

Investment varies across the sector. General insurance companies, driven primarily by the need for liquidity and short-term certainty, tend to invest largely in cash and 'Overseas Debentures, Loan Stocks, Preference & Guaranteed Stocks & Shares'. In comparison, long-term insurance companies, driven by the needs to both deliver good returns long-term, and match assets against long-term liabilities, focus much less on these areas, and more on traditional equities and property.

[25] ABI (2017) "Helping Britain Thrive"[19] ONS (2016) "UK Balance of Payments, Pink Book 2016"
[26] ABI Statistics – Invested Assets

Figure 20: Aggregated invested assets (%, 2016)[27]



A leading UK exporter

One of the secondary impacts of being the world's largest exporter of insurance and pensions is a significant contribution to the UK's balance of payments. The UK has experienced a consistently negative trade balance for almost 20 years, with Q3 1998 being the last quarter to experience a positive trade balance being. Meanwhile, the UK insurance industry has experienced a consistently positive trade balance since at least 1986.

Insurance is a significant exporter compared to other major industry sectors, both in the services and manufacturing sectors. During 2013-15, the UK exported £11.58 of insurance and pensions services on average for each £1 that it imported[28]; by comparison the rest of the UK financial services sector exported just £4.55 on average for every £1 of imported financial services, and the UK exported just 70 pence worth of trade in goods for every £1 imported.

Market overview

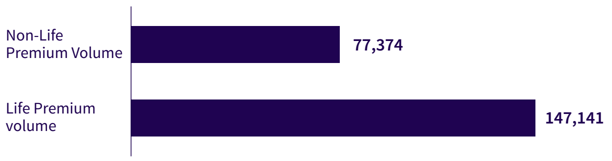
Key companies

UK insurers and pension providers are among the largest companies in the UK. Thirteen of the FTSE100 index of largest UK listed companies are either insurance or pension providers, or own large insurance / pensions subsidiaries. Of these, the combined market capitalisation of the eight insurance-focussed companies in the FTSE 100 is substantial – just over £122 billion – and comprises approximately 6% of the overall value of the index. In addition to the large listed companies, there are several large mutual and friendly societies, such as NFU Mutual, LV= and Royal London.

Market subsectors

The UK life sector received just under twice as much premium volume as the non-life sector in 2016, at £147 billion in premiums[29]. The non-life sector meanwhile received approximately £77 billion in premiums in 2016 – see Figure 21.

Figure 21: UK Life and Non-Life premium volume (£m, 2016)



The UK Insurance market hosts a large number of companies. Many of these are authorised by UK regulators to write insurance business, whilst other are authorised in their parent country and 'passport' into the UK. As of June 2017, there were 605 companies in the UK authorised to write motor insurance[30]; 229 of these were authorised in the UK, and 376 passported in from an EEA member state. In total 300 UK companies were authorised to write some form of general insurance business; see Figure 22 for the full breakdown. It is worth noting that we do not have data on the number of these that are actually active.

Figure 22: General Insurance Authorisations (summer 2017)

Product	Number of UK companies	Number of EEA companies	Total
Motor Insurance	229	376	605
Accident and Sickness	253	359	612
Fire and damage to property	223	423	646
Marine, aviation and railway rolling stock	224	352	576
General liability	229	399	628
Credit and suretyship	201	219	420
Other classes	264	458	722
Total companies	**300**	**624**	**924**

[27] ABI (2017) "Industry data: Invested assets"
[28] ONS (2016) "UK Balance of Payments, Pink Book 2016 – Time Series Dataset"
[29] Swiss Re Sigma 3 (2017)
[30] Bank of England (2017) "Insurance Information – Lists of Insurers"

The UK hosts significantly fewer companies that are authorised to transact life and pensions business, with 355 companies overall with some sort of life authorisation – of which 187 passport in from the EEA. Again, we do not have data on the number of these that are actually active.

Figure 23: Life Insurance Authorisations

Product	Number of UK companies	Number of EEA companies	Total
Life and annuity	115	172	287
Marriage and birth	48	56	104
Linked long-term	142	138	280
Permanent health	94	39	133
Tontines	1	7	8
Capital redemption	47	79	126
Pension fund management	60	40	100
Collective insurance	1	6	7
Social insurance	0	4	4
Total companies	**168**	**187**	**355**

Importance to UK households

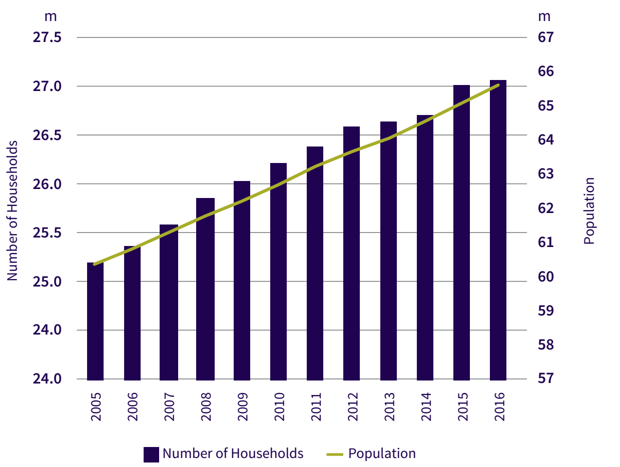
UK households are very diverse, with significant variations in demographic background, income and assets. The insurance and pensions industry provides financial security and assistance across the whole spectrum of different household types, helping protect everything from their possessions to their pensions, and many things in-between.

Overview of UK households

Size and composition

The UK population reached a new high in 2016, with 65.6[31] million people living in just over 27 million[32] households. The number of households in the UK has increased by 7% since 2006; this increase has broadly stayed in line with population growth, resulting in the average household size remaining at 2.4 people over the past decade[33].

Figure 24: UK Population / household count (millions, 2005-2016)[34]

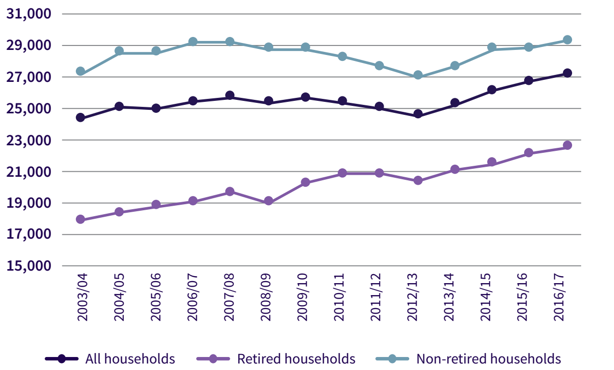


The UK, like many countries, has a diverse range of household types. Over the past decade there has been a 66% rise in the number of multi-family households, and a 7% increase in the number of households with adult children still living at home.

Household income

UK household incomes have been slowly increasing in recent years, following several years of stagnant growth after the recession. The median UK household disposable income in 2015/16 was £26,683, an increase of just over £560 on the previous year; disposable incomes have grown on average by just under 3% per year since 2013/14 (Figure 25)[35]. Retired households have bucked the overall trend somewhat, with steady growth in disposable incomes over the last decade.

Figure 25: UK household disposable incomes (£median, 2003-2017)



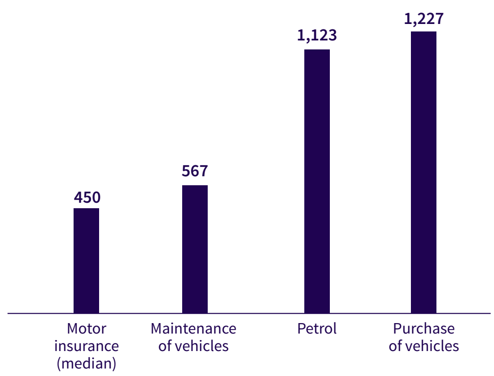
Household expenditure on general insurance

Households purchase a variety of different types of insurance to meet their needs. Households spent, on average, £16.30 a week on general insurance in 2016, and a further £21.50 a week on pensions and life assurance products; this equates to approximately £1966 a year, or around 7% of household disposable income. This is costing households nearly £619 more than in 2012. For comparison, households spent around £1200 on clothing and footwear and £1800 on household goods and services in 2016.

Motor insurance

Motor insurance is the most widely held type of general insurance product in the UK, with 74%[36] of households purchasing one or more policies in 2016. The median expenditure of these households on motor insurance was approximately £450/year in 2016; for comparison, the ABI's motor premium tracker for 2016 showed an average premium of £441[37]. Households spend significantly more than this on purchasing and maintaining their vehicles; on average they spent £1227 purchasing vehicles, and a further £1690 operating and maintaining them[38].

Figure 27: Average UK household motoring expenses (£median, 2016)



[31] ONS (2017) "Population estimates"
[32] ONS (2017) "Living costs and food survey"
[33] ONS (2016) "Statistical bulletin: Families and households in the UK: 2016"
[34] ONS (2017) "Population estimates" and "Labour Force Survey"
[35] ONS (2017) "Statistical bulletin: Nowcasting household income in the UK: financial year ending 2017"
[36] ONS (2017) "Living Costs and Food survey", ABI analysis

Home insurance

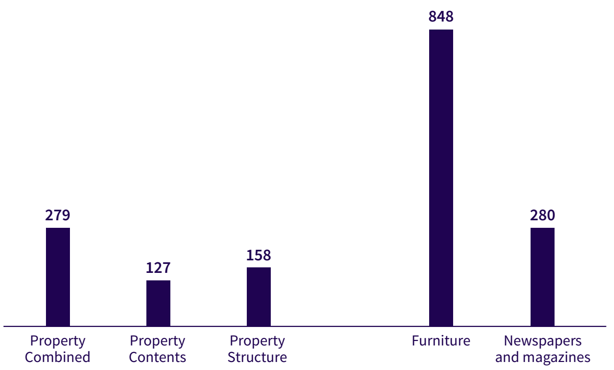
The average household in the UK had approximately £34,900 worth of contents in their primary residence in 2012-14[39]; this is approximately 1.4 times as large as the annual household disposable income for that period. This represents a considerable amount of household wealth contained in the contents of people's homes, and many choose to take measures to protect these assets.

Home contents insurance is the second most widely held form of insurance amongst households, with 72% having some form of contents insurance expenditure in 2016[40]. Of those with contents insurance, the median expenditure was approximately £128 per year; similar equivalent household expenditures include an average of £125/year spent on cleaning materials.

Many UK households own their own home, with 64% of households living in their own home (with or without a mortgage) compared to 36% who rent[41]. A large proportion of these households purchase home buildings insurance to help cover the risk of losing their home to events such as flooding or fire; indeed, mortgage providers generally require those in the 43% of households purchasing with a mortgage to protect their home. In 2016, approximately 61% of households spent money on home buildings insurance – spending on average £158 per household on obtaining cover.

A large proportion of households – 56% - chose to combine their purchase of buildings and contents insurance, and spent approximately £279 on a combined policy[42]. For comparison, the ABI's household insurance premium tracker recorded an average premium paid figure of £307 in 2016. It is also worth noting that, in 2016, households spent significantly more money on furniture - £848 - and newspapers and magazines - £280 – than they did on obtaining the peace of mind afforded by home insurance.

Figure 28: Average UK household expenditure on home insurance (£median, 2016)



Other insurance expenditure

Households spend money on a variety of other types of insurance, protecting not only their property but their incomes, their health and their future.

In 2016, around 7% of households spent money on travel insurance – on average around £160 per year – compared to an average expenditure of £1200 per year on package holidays. Just over 6% of households reported some level of expenditure on private medical insurance in 2016, with the median average expenditure at just over £528; meanwhile, around 22% of households had some sort of life insurance coverage, spending on average £336 in 2016.

Households & pensions

Contributing to pensions

Households need to make provisions for later life to maintain their standard of living, with the state pension currently providing just £159.55 a week (or £8,297 per year). In 2015/16 there were approximately 13.4 million actively contributing members of occupational pension schemes[43] - schemes set up and administered by an employer on behalf of their employees – and a further 8.9 million[44] members of personal pension schemes (including group personal pensions, stakeholder pensions, etc.).

This represents a considerable increase over the last few years, with the equivalent total in 2010/11 being approximately 13.7 million active occupational and personal pensions scheme members combined. This increase has largely been driven by the introduction of auto-enrolment, which legally requires employers to enrol and contribute towards their employees' pensions (unless the employee specifically opts out).

The average contribution of a scheme member can vary widely between the type of pension. For a Defined Benefit (i.e. final/average salary) style occupational pension scheme, the 2016 average contribution was the equivalent of between 22.7% and 24.9% of salary, depending on the valuation basis of the scheme; of this total, the employee themselves contributed between 5.8% and 7.5% of their salary[45].

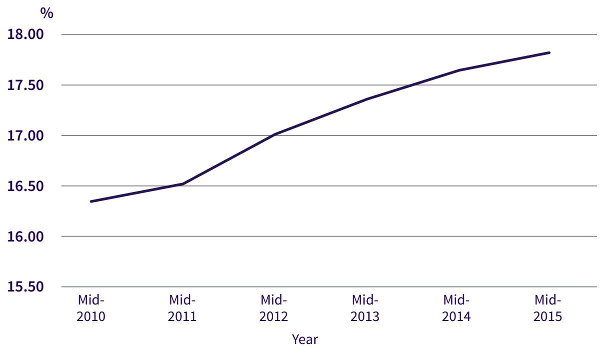
Looking at Defined Contribution style occupational schemes paints a radically different picture, with the average overall contribution approximately 4.2% - of which 1% is contributed by the employee. This will likely increase significantly in 2018, however, with the forthcoming rise in minimum contributions for auto-enrolment schemes to 3% from employees and 2% from employers[46].

[37] ABI "Quarterly Motor Premium tracker"
[38] ONS (2017) "Living Costs and food survey"
[39] ONS (2015) "Wealth and Assets Survey: Physical Wealth, Wealth in Great Britain, 2012 to 2014"
[40] ONS (2017) "Living Costs and food survey", ABI analysis
[41] ONS (2017) "Labour force survey"
[42] ONS (2017) "Living Costs and food survey", ABI analysis
[43] ONS (2016) "Occupational Pensions Scheme Survey"
[44] HMRC (2017) "Table PEN6: Personal pensions"
[45] ONS (2016) "Occupational Pensions Scheme Survey"
[46] The Pensions Regulator "Increases in minimum contributions for automatic enrolment pensions"

Households in retirement

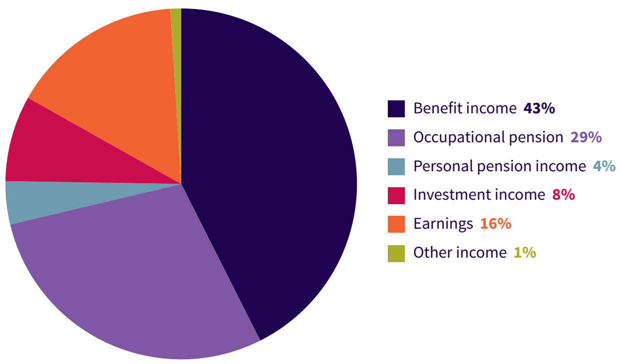
There were 11.8 million people aged 65 and older[47] in the UK in 2016 – approximately 18% of the population. This proportion has been steadily growing over the last few years, from 16% in 2010. The UK population is ageing.

Figure 29: UK population aged 65+ (%, 2010-2015)[48]



There were approximately 8.75 million pensioner households in 2016[49]; a little over half of these (57%) were couples, and the remainder were single. 97% of these households received the state pension[50], whilst 70% had some form of private pension income. Investment income was also a popular source of income for pensioner units in 2016, with 63% in receipt of an average income of £260 a year. Additionally, approximately 17% of pensioner households still received income from employment. From a value perspective, 43% of their household income came from benefits (state pension, etc.), with a further 33% received from private and occupational pensions (see Figure 30 for the full breakdown).

Figure 30: UK pensioner income sources (% of pensioner households, 2016)

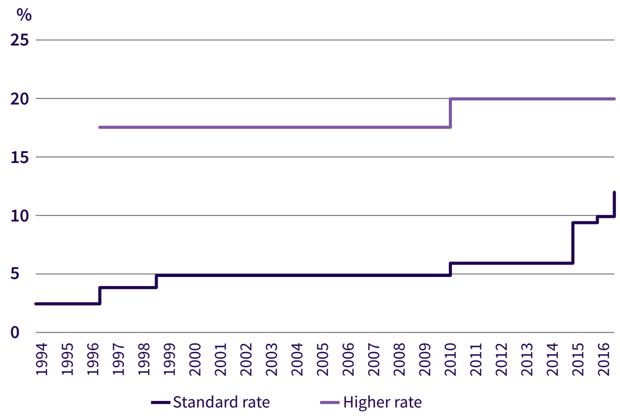


Household impact of recent Government legislation

Insurance Premium Tax (IPT)

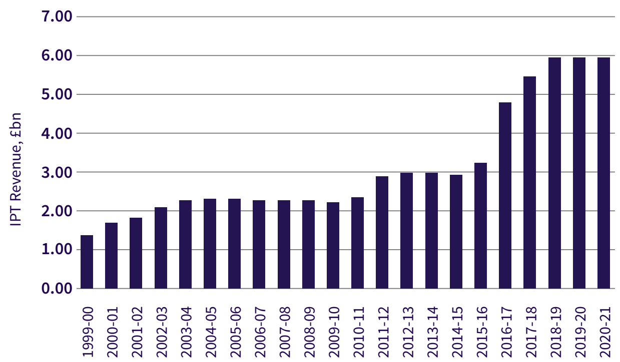
The IPT rate has increased to 12%, around five times more than when it was first introduced in 1994 at 2.5%. The latest increase could add around £50 to the average annual household bill[51]. Those who are likely to see their premiums rise the most are young and older drivers, who pay more for their motor insurance[52].

Figure 31: Historical IPT rates (%, 1994-2016)[53]



The amount of revenue raised from IPT, on a per household basis, stood at £179 in the 2016/17 fiscal year[54]. The Government received £4.8 billion from Insurance Premium Tax in 2016/17. It is estimated that the annual costs of IPT per household will increase to more than £200 from 2018[55].

Figure 32: Past and predicted IPT revenue to the exchequer (£bn, 1990-2021)



[47] ONS (2017) "Article: Overview of the UK population: July 2017"
[48] ONS (2017) "UK and Regional population estimates 1838-2015"
[49] Pensioner household defined as a single individual over state pension age (SPA), or couple with at least one individual over SPA
[50] Department for Work and Pensions (2017) "Pensioners' income series: financial year 2015/16"
[51] SMF (2017) "The impact of Insurance Premium Tax on UK households"
[52] ABI (2017) "News: news articles: 2017/05: third rise in insurance premium tax in under two years"
[53] HM Revenue & Customs (2017) "UK trade info: Tax and duty bulletins: Insurance Premium Tax"
[54] SMF (2017) "The impact of Insurance Premium Tax on UK households"
[55] SMF (2017) "The impact of Insurance Premium Tax on UK households"

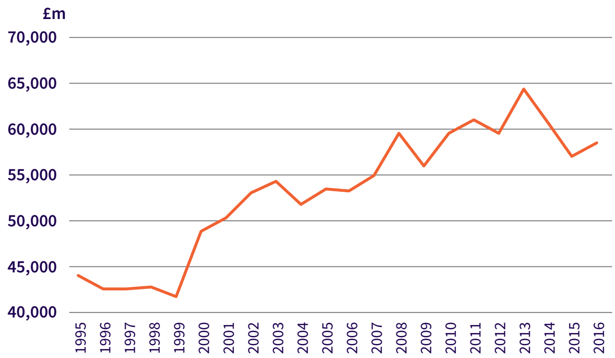
SECTION 2
General insurance

By Rachel Pearson – Data & Analytics Adviser (General Insurance)

The total market

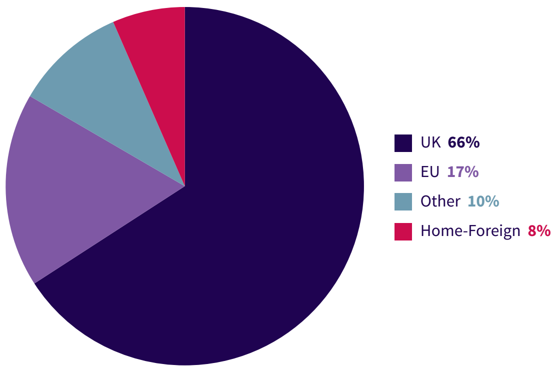
The UK general insurance market provides support and certainty to households and businesses within the UK and abroad, across a wide range of business lines. In 2016, the overall size of the market reached £59 billion, of which £39 billion related to domestic risks, while £20 billion was focussed overseas. This is, however, only looking at ABI members – when looking to include non-members, including notably business done through Lloyd's of London, there was almost £87 billion worth of business written in the UK in 2016. Going forward in this document, unless stated otherwise, statistics represent ABI data providers only.

Figure 33: Total UK gross written premium (£m, 1995-2016)



This represents market growth of £1.5 billion, or 3% on 2015, of which almost £2 billion came from foreign risks. Over a third of business written by UK insurers is written through either the overseas branches or subsidiaries of UK entities, or through Freedom of Services, highlighting just how significant the international dimension is for our sector, and how important it is to maintain strong trade relations. With the UK having voted to withdraw from the European Union in June 2016, and triggering Article 50 in March 2017, a difficult and complicated set of negotiations has now begun, creating significant uncertainty about the shape of the UK insurance industry's future presence in Europe.

Figure 34: Total UK GI business by territory of risk (%, 2016)



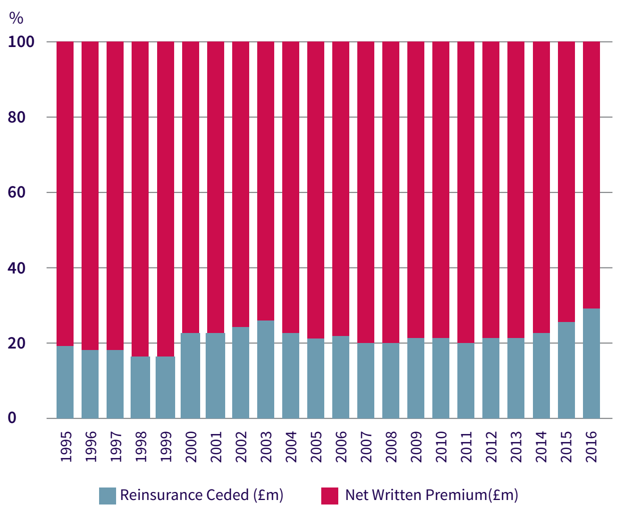
Delving deeper into the ABI's data, we clearly see the impact of Solvency II, which came into effect in January 2016. This caused significant reshuffling, with many insurers buying more reinsurance, or consolidating their books and passing risks from solo entities up to group level.

With Solvency II in mind, there have also been some shifts in the way that the ABI has collected and calculated the data, aligning ourselves as much as possible with SII reporting, and allowing us to examine the market in more detail. For example, we are now able to calculate underwriting results in terms of earned premiums, and look at a more detailed breakdown of insurers' commission and expenses than ever before. We are also now taking into consideration changes in provisions for future claim payments within Gross Claims Incurred.

The reinsurance industry stood out in particular in 2016, with an increase in the proportion of Gross Written Premiums being ceded to reinsurers to a record 29% of UK business. This record is unsurprising given:

1. The impact of Solvency II on capital requirements, which has made increased reinsurance protection more attractive for certain firms;
2. The continued softening of a global reinsurance market swimming in capital as a result of the rise of Insurance-Linked Securities (ILS) and alternative capital.

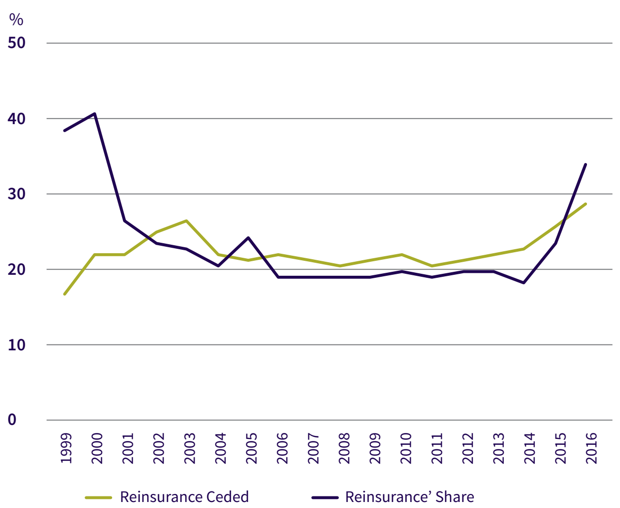
Figure 35: Proportion of total GWP reinsured (% , 1995-2016)



There has also been a significant increase in the number of ABI members now reporting for reinsurance, with ABI members' share of the UK reinsurance market more than doubling since 2015.

This year saw insurers paying out more in claims, driven by the direct market where Gross Claims Incurred grew by 6% on 2015. However, it was reinsurers that picked up much of the additional bill here, paying out a record share of claims at 34%. Without this, the insurance market could have been telling a very different story. This also demonstrates a shift in the balance of the market, with reinsurers' share of claims higher than the proportion of premiums ceded to reinsurance for the first time since 2005, as shown in Figure 36.

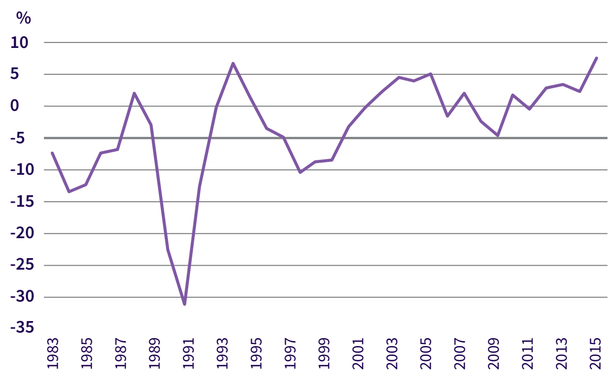
Figure 36: Proportion of business reinsured against proportion of claims incurred paid by reinsurers (% , 1999-2016)



Returning to the direct market, Insurance Premium Tax has been making headlines recently, having been hiked up for the third time in just two years, and doubling since November 2015. The most recent rate increase, from 10% to 12%, is estimated to cost the average household an extra £47 a year, and has been labelled as a 'raid on the responsible' by the ABI.

In February 2017, the Ministry of Justice announced that the Ogden Discount Rate would change, for the first time since 2001, from 2.5% to -0.75%. This is the rate used in calculating lump-sum compensation for those suffering life changing injuries. The announcement sent shockwaves through the industry, with insurers facing an immediate, sizeable capital hit, followed by significant ongoing increased costs, which will inevitably feed through into motor and liability premiums. Subsequently, the Government has announced plans to change the legal basis on which the Discount Rate is set, with the intention of the rate returning to a level that more realistically represents the investment behaviour of claimants.

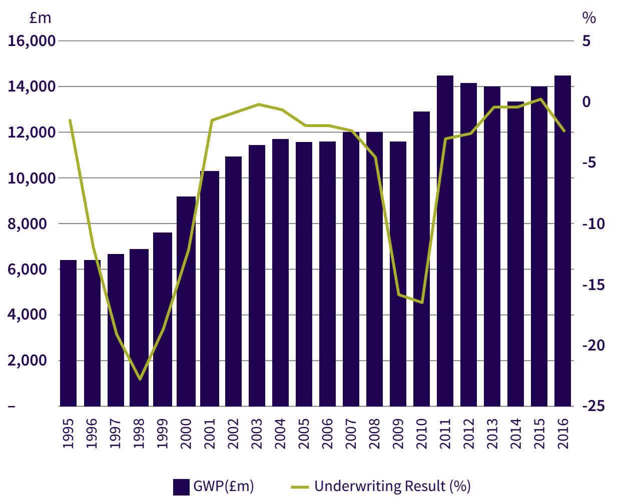
Figure 37: Total UK GI market underwriting result (%, 1983-2015)



Motor

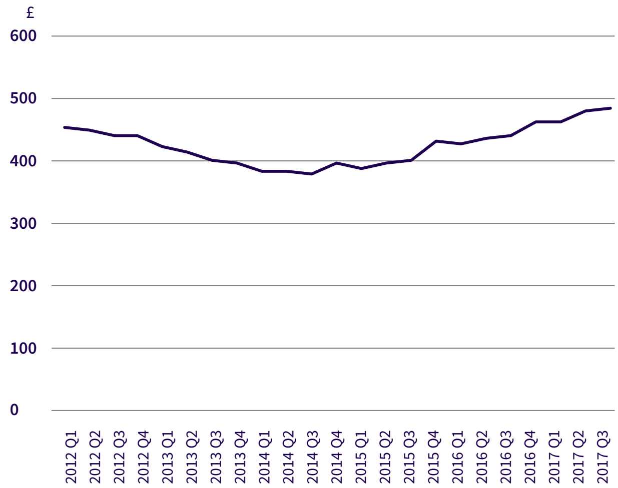
After the first year of underwriting profit in 21 years in 2015, the UK insurance market made a loss of £194m in 2016, with a Combined Operating Ratio of 102.3%. This was very much expected however, with rising claims costs – particularly relating to repair bills and the weakening of the pound - putting significant pressures on the market. The losses were contained within the domestic market, with commercial motor insurance making an underwriting profit for the second year in a row. The size of the market has been growing steadily, with Gross Written Premiums for comprehensive private car policies growing 12% from 2015 to £12 billion. There has also been steady growth in volume in recent years, with over 27m policies written in 2016.

Figure 38: UK direct motor GWP (£m) and underwriting result (%, 1995-2016)



Motor premiums reached a record high at the end of 2017 Q3, at £485, £57 higher than the average motor premium at the beginning of 2016. Rising repair costs, repeated hikes in Insurance Premium Tax, and with the industry anticipating significantly higher bodily injury claims costs following the Ogden Discount Rate change in February 2017, all contributed to this trend. In the second quarter of 2017, the ABI was also able to measure average premiums month by month, to better understand the instant impact of increases in IPT. The AA suggested that this rise in IPT could increase the number of people choosing to risk driving uninsured[56], at the same time as the Motor Insurers Bureau reported the first rise since 2004 in the number of claims against uninsured drivers[57].

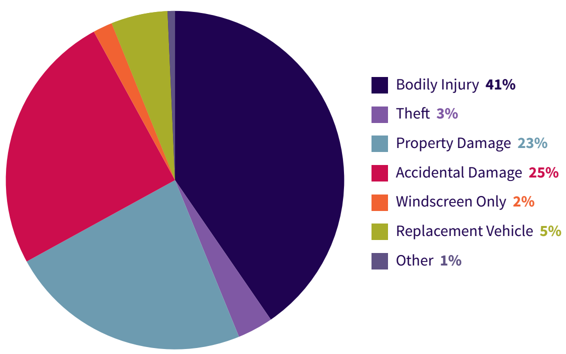
Figure 39: Average UK premium for private car (including IPT) (£, 2012Q1-2017Q3)



With premiums rising rapidly, young drivers were the unexpected exception to the rule, with the average premium for those aged 18-20 falling from £997 in 2015 to £973, with telematics encouraging and rewarding safer driving. Younger drivers continued to pay comfortably the highest premiums however, and claimed significantly more frequently than any other age group. The only age group that had a higher average claim cost than 18-20 year olds was the over 91s, whose average claim was over £5,500, driven up by a few large claims in a very small pool of drivers.

Claims costs dominated the motor insurance industry in 2016, with the domestic claims ratio at its highest level since the LASPO reforms came into effect in 2012. This is even without the full impact of the Ogden Discount Rate change coming through, with the Discount Rate having been adjusted in early 2017, for the first time since 2001, from 2.5% to -0.75%. Bodily injury claims are unsurprisingly the most expensive part of claims costs for insurers, with 40% of all private car claims costs paid out relating to bodily injury claims.

Figure 40: Gross claims paid for private car, split by type of claim (%, 2016)



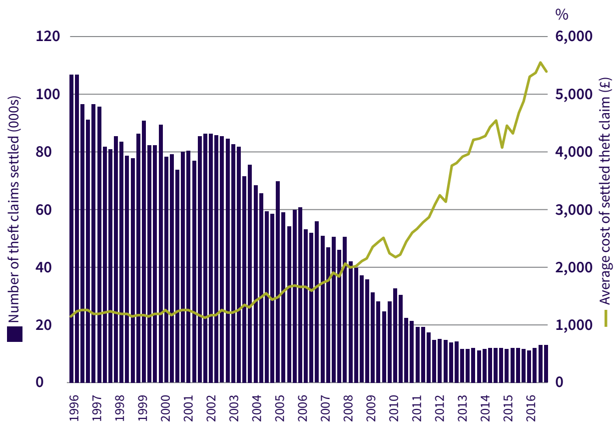
[56] ABI (2017) "Helping Britain Thrive"[19] ONS (2016) "UK Balance of Payments, Pink Book 2016"
[57] ABI Statistics – Invested Assets

In the Queen's Speech in 2017, the Government announced that they would tackle escalating whiplash claims in their Civil Liability Bill, following many years of ABI campaigning on the topic. Whiplash type claims have remained high in recent years, with over 671,000 people making a whiplash type claim in 2016/2017[58]. Proposed reforms, including increasing the small claims track (SCT) limit to £5,000, seek to tackle the growing compensation culture, while still ensuring that genuinely injured claimants receive the care and compensation they need.

While the use of Advanced Driver Assistance Systems (ADAS) is growing, with the industry fully supporting the development of autonomous driving, replacing and repairing cars with such sophisticated technology proves more complex, and naturally more expensive[59]. Rising vehicle repair costs are proving increasingly problematic for insurers, with increasingly expensive spare parts being required, and the weakening of the pound forcing up import costs. Brexit is also expected to exacerbate the situation, with the SMMT warning that a poor deal, or no deal would add further pressure on import, and therefore repair costs[60].

Theft has also been on the rise, with the number of theft claims reaching its highest levels since early 2013, although nowhere near the heights of the 1990s and early 2000s. The cost of these claims has also been rising, with the average theft claim costing 15% more in just 18 months. The police have been reporting a similar trend, with a 19% rise since April 2015 in the number of thefts of motor vehicles[61]. As the number of cars on the market with keyless entry systems grows, thieves are increasingly intercepting these signals to hack into and steal the car. With thieves targeting these higher-end cars, this will undoubtedly be a driver of the increasing average cost of theft.

Figure 41: Average cost (£) and volume (000's) of motor theft claims (1996-2016)



58 Department for Work and Pensions' Compensation Recovery Unit (CRU)
59 http://news.thatcham.org/pressreleases/repair-focus-2017-thatcham-research-calls-for-new-thinking-and-approaches-to-halt-spiralling-cost-of-repair-2002192
60 https://www.smmt.co.uk/2017/07/government-urged-put-automotive-heart-brexit-agenda-uk-motorists-face-10-increase-servicing-costs/
61 https://www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/bulletins/crimeinenglandandwales/yearendingmar2017

Property

There was a collective sigh of relief at the end of 2016, as insurers welcomed a year of benign weather. As the UK began to recover from the effects of Storms Desmond, Eva and Frank at the end of 2015, insurers' results also began to pick back up, with a Combined Operating Ratio of 89.3 (the lowest since 2004), and Direct Gross Written Premiums growing by 4% to £10.4 billion.

Figure 42: UK direct property gross written premium (£m , 1995-2016)

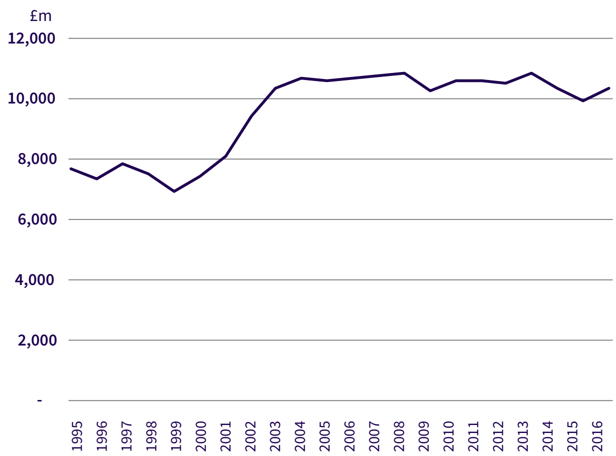
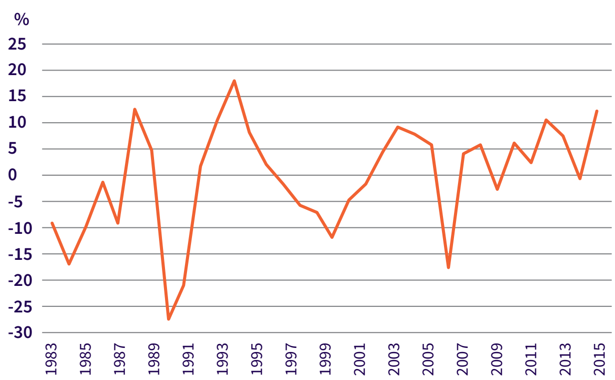


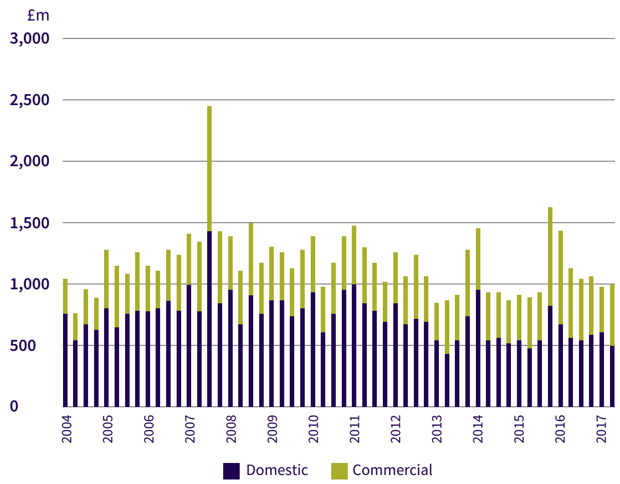
Figure 43: UK property underwriting result (% , 1983-2015)



Looking more closely at the domestic market, average premiums for combined buildings and contents insurance fell through 2016, and reached a record low at the beginning of 2017 at just £297, with benign weather, cheap reinsurance, and high competition keeping premiums low. The continuing penetration of aggregators will also be contributing to the overall fall in prices, with 20% of Gross Written Premiums now written through price comparison sites. Premiums picked up slightly in the second and third quarters of 2017, as Insurance Premium Tax was increased for the third time in just two years to 12%.

The aftermath of Storm Desmond, Eva and Frank formed the greatest hurdle for property insurers in 2016, as insurers were left with the significant costs and challenges caused by the floods, with an estimated 15,000 claims costing around £1.3 billion. With flooding becoming a growing risk for families across Britain, the launch of Flood Re in April 2016, after years of development by the ABI and wider industry, has helped to keep home insurance accessible and affordable for those living in high flood risk areas.

Figure 44: UK Gross property claims incurred per quarter (£m, 2004-2017)



With more water than ever now running through families' homes, and the increased tendency to hide plumbing away out of sight and out of mind, there has been an increase in both the volume and cost of Escape of Water claims, with claims costs increasing 50% in the last three years. The weakening of the pound, which has been driving up repair costs, and a shift from copper to plastic pipes are thought to have been contributing to the rise in volume and costs of claims in recent years. This has now become a point of focus for the industry, with insurers looking to better understand and combat this rapidly rising peril.

Although burglaries are estimated to be down 72% since 1995[62], with households doing more to protect and prevent, the total cost of individual theft claims started to rise again at the beginning of 2017, reaching £96m for domestic theft in Q1 – the highest level since the end of 2012. With households holding increasing numbers of gadgets and expensive goods, the average cost of domestic theft claims hit a peak at the beginning of 2017, more than doubling in just 10 years.

[62] https://www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/bulletins/crimeinenglandandwales/yearendingdec2016

As the 350th anniversary of the Great Fire of London came around in September 2016, the ABI called for a review of fire regulations, paying particular attention to the need for sprinklers in buildings with vulnerable occupants, including schools and care homes, as well as warehouses over 2,000m^2. Fire is by far the most costly peril for commercial property insurers, with over 50% of the total claims paid out for fire & explosions. Similar to theft claims, while the volume of fire-related claims is decreasing, the impact of this is cancelled out by the cost of these claims increasing rapidly, with the average fire claim costing almost three times more than claims ten years ago.

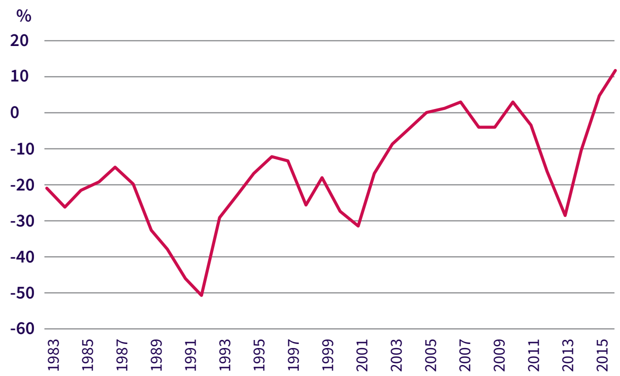
Following the catastrophic Grenfell Tower fire in June 2017, insurers worked closely on the ground with those affected by the fire, and will continue to offer help and support moving forward. There is now a countrywide effort to review and amend building regulations, with a public inquiry investigating what happened at Grenfell Tower, and a forward looking Independent Review of Building Regulations and Fire Safety for fire safety, which the ABI has submitted a response to, advocating for wide-ranging improvements to the building control system, and clarity on the roles and responsibilities of those involved.

In October 2017, the ABI launched 'The Insurance Experiments' – a series of short, accessible animations helping consumers better understand their insurance. With property insurers accepting over 80% of claims made in 2015 and 2016, the ABI is initially focusing on property insurance, as the complex nature of add-ons and limits can appear daunting to consumers, with this confusion ultimately leading to underinsurance.

Liability (including cyber insurance)

Reinsurance protection saved the day for liability insurers, who saw record underwriting profits of £312m in 2016. With gross claims rising, reinsurers paid out over 50% of claims following a significant shift towards reinsurance in 2015. This, combined with significant reserve releases throughout the market, drove the underwriting profit in an environment that otherwise surely would have led to underwriting losses.

Figure 45: UK liability underwriting result (% , 1983-2015)



GWP fell slightly in 2016, down to below £4 billion, with some of the business that used to be included under the 'liability' umbrella splitting out under the other Solvency II classes of insurance. Within Liability, Public and Products Liability was the largest line at 40% of GWP, while also making the least profit at just £23m, with product recalls at an all-time high.

Employers' liability had the lowest Combined Operating Ratio, at just 78, driven by a particularly low claims ratio, as reinsurers' share of claims came to almost 60%. Changes in the Ogden Discount Rate will undoubtedly have an effect on the liability market, with insurers accounting for significant cost increases on high value claims. Even taking into consideration the expected revision of the calculation of the Discount Rate, there will still have been an overall reduction in the rate, driving up the pay-outs of large claims.

The ABI, for the first time, is able to estimate the size of the UK cyber insurance market, at around £20m in 2016. This is however, likely to be just the tip of the iceberg, with much of cyber insurance expected to be written through Lloyd's of London. Following the 'Wannacry' crisis in May 2017, cyber insurance has been gaining more profile as part of the toolkit for businesses in managing cyber risk, and this should contribute to sustained growth over the coming years.

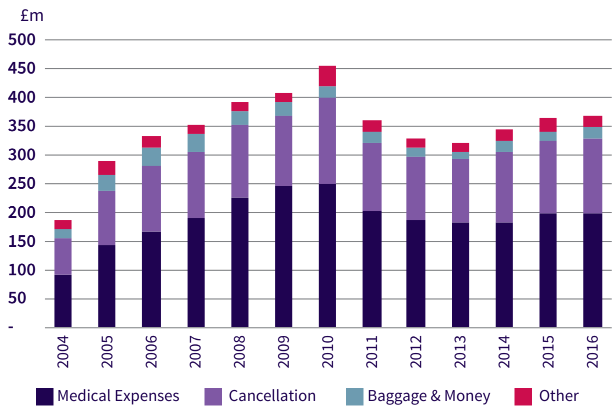
[58] Department for Work and Pensions' Compensation Recovery Unit (CRU)
[59] http://news.thatcham.org/pressreleases/repair-focus-2017-thatcham-research-calls-for-new-thinking-and-approaches-to-halt-spiralling-cost-of-repair-2002192
[60] https://www.smmt.co.uk/2017/07/government-urged-put-automotive-heart-brexit-agenda-uk-motorists-face-10-increase-servicing-costs/
[61] https://www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/bulletins/crimeinenglandandwales/yearendingmar2017

Travel

Despite a record number of visits overseas made by Brits in 2016, travel premiums fell to their lowest level since 2004 at £481m. With the average premium at just £37, and just £21 for those aged between 26-30, travel insurance can very easily cost less than what many spend at the airport on drinks and snacks, with a range of cover options available for customers, depending on the price they are prepared to pay.

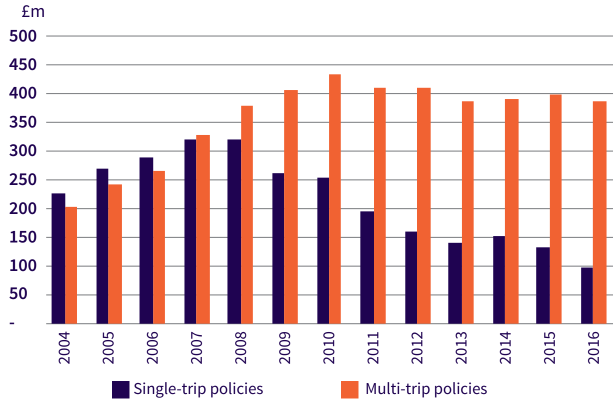
Claims reached their highest levels since the Eyjafjallajökull volcano eruption in 2010, with insurers paying out £369m in 2016, £199m of which went towards medical expenses. With an average cost of £1,296, but the potential for extreme scenarios reaching tens of thousands of pounds, falling ill while abroad can be financially disastrous for the uninsured. While the European Health Insurance Card is essential when travelling to Europe, this only provides travellers with the same level of state provided healthcare that residents of that country are entitled to, which varies from country to country, and will not provide any support for getting the individual back home. In summary, travel insurance provides an essential safety net, without which travellers may find themselves stranded and unable to afford their medical bills.

Figure 46: Travel gross claims incurred, split by type of claim (£m, 2004-2016)



There has been a noticeable shift over the last few years, with people increasingly buying multi-trip policies as opposed to single-trip policies. In 2006, 62% of policies sold were single trip policies, whereas now this share has dropped to just 21%. With many banks now offering travel insurance as an add-on to their bank account offerings, this will no doubt have had a significant effect on the type of policies being sold.

Figure 47: Travel gross written premium split by policy type (£m, 2004-2016)

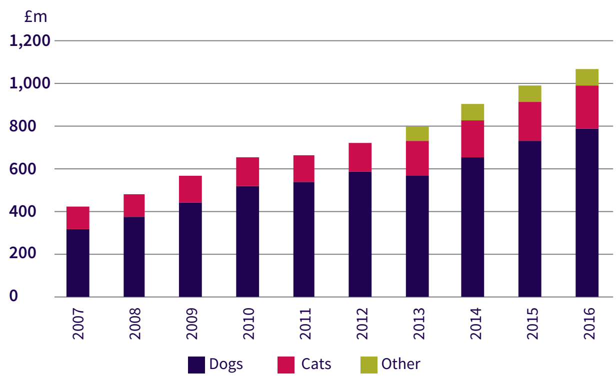


As would be expected, age has a significant impact on the price of travel insurance, with the average cost of claims for those over 66 almost three times as high as those between 18 and 30. Older travellers are also more likely to claim on their travel insurance, driving up the premium they have to pay for their cover.

Pet

With Gross Written Premiums growing by 7% in 2016, surpassing £1 billion for the first time, pet insurance was one of the fastest growing lines in the UK. Despite this, pets with insurance are still in the minority, with just 30% of dogs and 16% of cats covered[63]. For the rest, their owners have to pay vet bills themselves, with treatment often running into thousands of pounds. With 17% of pets now having their own social media account, there are now more cats online than have insurance[64]!

Figure 48: Pet insurance gross written premium, split by pet type (£m, 2007-2016)

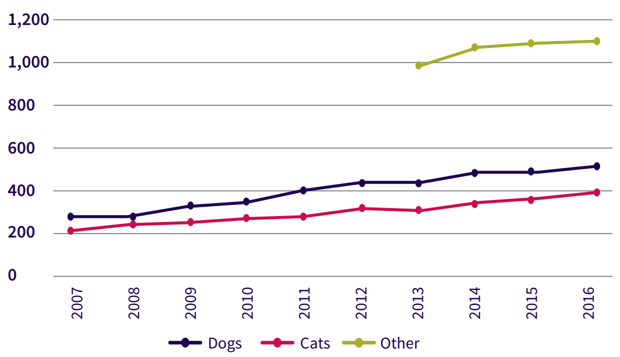


Claims have been rising rapidly over the last 10 years, and are now at a record high, with £706m paid out in 2016. With vets now offering a wider range of treatment options, claims costs have almost doubled since 2007, with the average claim now costing £757.

[63] http://www.pfma.org.uk/pet-population-2016
[64] https://www.about.sainsburys.co.uk/news/latest-news/2017/070817bg

Dogs are by far the more costly to insure, with an average premium of £336, while cats cost just £199. With dogs costing on average almost £200 more than cats to treat, they are also more likely to need treatment, with more than 1 in 4 dog owners claiming on their insurance compared to 1 in 6 cat owners.

Figure 49: Pet insurance average claim (£, 2007-2016)



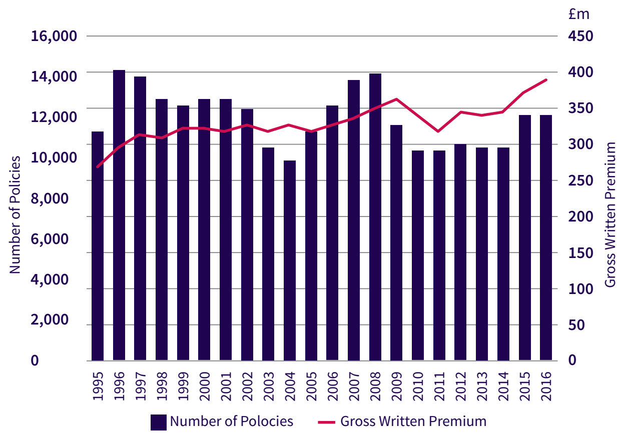
With so many pets uninsured, there is clearly room for the pet insurance market to continue growing, with 44% of households owning pets in 2017[65], compared to 40% in 2016 – a 10% rise in just a year. The market is also relatively condensed, with just five underwriters writing almost 90% of business in the UK. With this in mind, insurers will need to think about rising claims and vet costs when considering entering the market.

Miscellaneous and pecuniary loss, including trade credit

There has been significant growth in the Miscellaneous and Pecuniary Loss lines, partially coming from shifts in definitions, with some new policies now being included under this umbrella. Gross Written Premiums grew by 9% on 2015, to £4.2 billion – the highest level since 2008. The miscellaneous lines are consistently strong performers, with the market not having made a loss since 2004. Assistance, which includes a variety of products from travel insurance to breakdown and boiler cover, showed the strongest profits, at £178m. In contrast, credit and suretyship insurance saw a loss of £9m, with significant increases in provisions for unearned premiums and future claim payments.

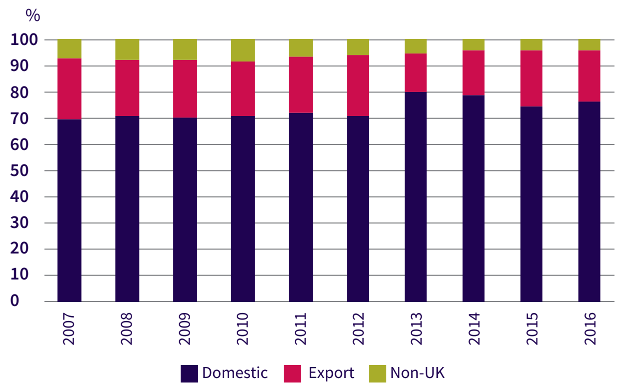
Trade Credit insurers covered record levels of turnover at £314 billion, on almost 12,000 policies. As this market continues to grow, insurers are adding significant value by encouraging and enabling trade worldwide, giving companies the confidence to export and expand their global coverage. With global trade expected to expand by 2.4% in 2017, businesses are increasingly looking to protect themselves against economic volatility and uncertainty.

Figure 50: Trade credit policy volume and gross written premium (£m, 1995-2016)



The share of Gross Written Premium covering domestic risks has been growing over the last 10 years, reaching 68% in 2016. Uncertainty surrounding the future of business in the UK has started to show, with the manufacturing sector showing signs of stalling growth. Company insolvencies in the UK have also been rising steadily, with Gross Claims Incurred rising 13% from 2015 to 2016, to the highest level since the 2008 crash.

Figure 51: Trade credit share of gross written premium by market segment (%, 2007-2016)

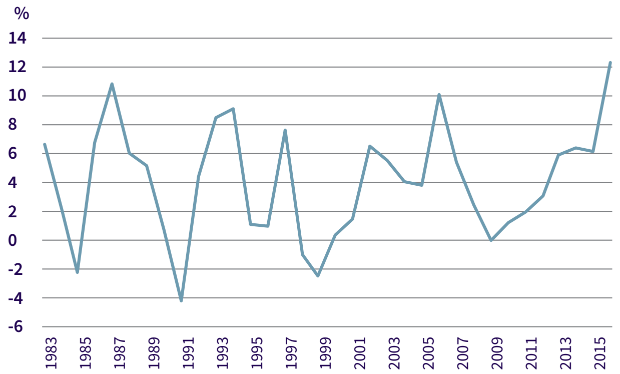


[65] http://www.pfma.org.uk/pet-population-2017

Accident & health

The Accident & Health market continued its reputation for being strong and stable, making an underwriting profit for the 17th year in a row, and with the lowest Combined Operating Ratio in ten years at 90. Market growth remains a challenge, however as Gross Written Premiums remained flat at £3,525. There was a significant rise in reinsurers' presence in the market, with almost a quarter of all premiums ceded to reinsurers, compared to just 7% in 2015.

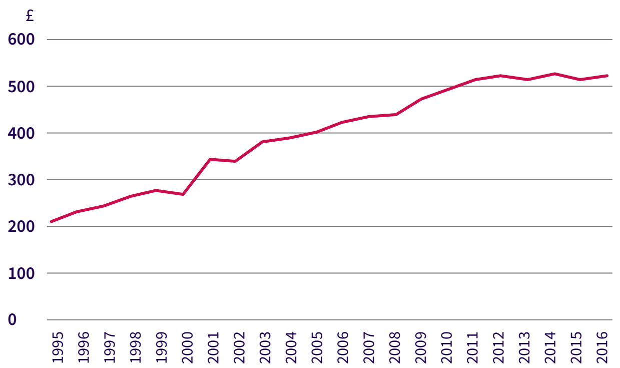
Figure 52: UK accident and health underwriting result (%, 1983-2015)



There has also been an increase in the number of people now taking out Private Medical Insurance and cash plans, with a particular increase in the number of corporate PMI policies taken out, rising 5% on 2015 to 1.2m. PMI and cash plan customers were hit particularly hard by the increases in Insurance Premium Tax, with £39 added to the average policy as a result of the final increase to 12% in June 2017, and the average customer paying well over £200 of IPT in total.

Healthcare costs have also continued to rise, as the average claim paid out per person covered has more than tripled since 1993 to £526. With this in mind, insurers are also looking to enable better wellbeing, alongside their Private Medical Insurance and cash plan policies. As well as offering individuals support with fitness and health, health insurers are also increasingly reaching out to their corporate customers to encourage wellbeing in the workplace.

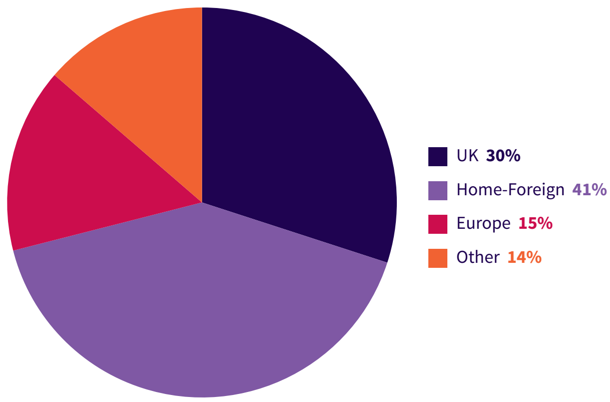
Figure 53: UK average claim per policyholder (£ mean, 1995-2016)



Reinsurance

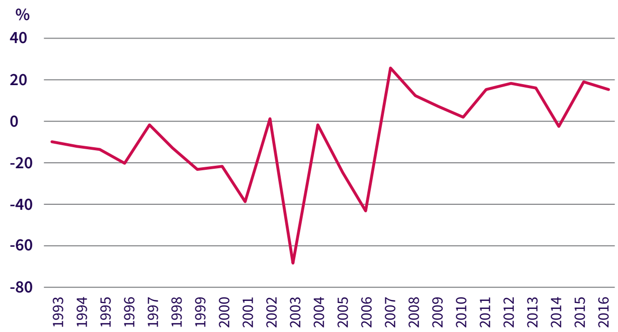
Reinsurance proved a big mover through 2016, with Gross Written Premiums almost doubling to £3.8m, and ABI members doubling their market share in the UK. New ABI data collections allow us to see what proportion of risks are considered 'Home-Foreign' – business written in the UK relating to overseas risks. As shown in figure 54, 'Home-Foreign' business makes up the largest proportion of Gross Written Premium split by location of risk at over 40%, with just 30% of business relating to risks in the UK. Home-Foreign business also proved the most profitable, with an underwriting profit of £137m, and highlighting the continuing importance of the London Market to global risk management and to the UK economy.

Figure 54: UK reinsurance gross written premium by territory of risk (%, 2016)



The reinsurance market has been softening for some time now, with capital pouring in to both traditional reinsurance and alternatives such as Insurance-Linked Securities, and this continued into 2016. With insurers assessing their risk and capital portfolios in a Solvency II regulatory environment, we have seen an increasing dependence on reinsurance through many of the direct lines of business, much assisted by falling reinsurance premiums.

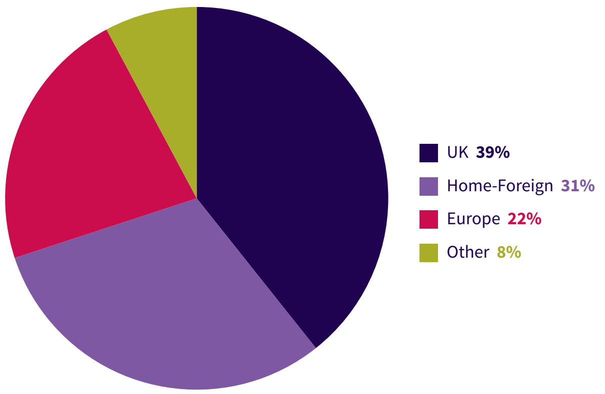
Figure 55: UK reinsurance underwriting result (%, 1993-2016)



Marine, aviation and transport

Following an underwriting loss in 2015, MAT insurers will have been relieved to see record profits of £265m, despite a slight decrease in Gross Written Premiums. This is a highly international line of business, and just 39% of GWP (£574m) was related to UK-based risks. We can also see the breakdown between Marine, Aviation and Transport for UK policies, with Aviation making up just 10% of Gross Written Premiums. This is not entirely surprising, as the nature of the product means that the vehicles, ships and aircraft being covered will often be travelling internationally.

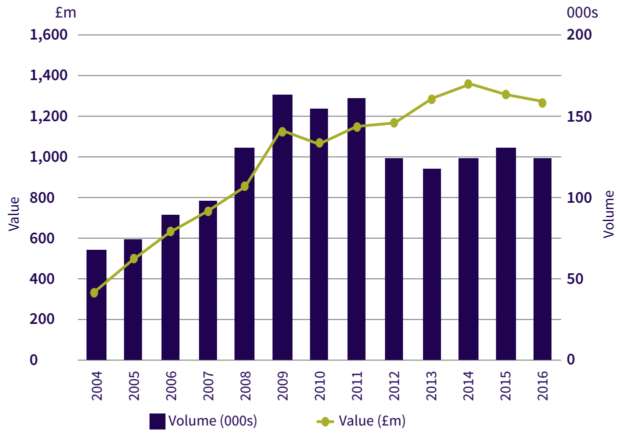
Figure 56: Marine, aviation and transport location of risk by GWP (%, 2016)



Fraud (GI)

The industry's collaborative approach to combatting insurance fraud continues to reap benefits, as the value of detected insurance fraud fell for the second year in a row, to £1,276m. Organised fraud has been a particular point of focus, with a sharp crackdown on 'crash-for-cash' gangs and ghost-broking activity, as the volume of organised motor claims fraud fell by more than a third since 2015, and the Insurance Fraud Bureau (IFB) secured its 500th conviction in May 2017. Opportunistic fraud has, however, shown a small increase as people continue to be pestered by disreputable claims management companies that are helping to fuel the compensation culture. The ABI will continue to press Government to tighten the regulation of claims management companies, to press for reform to curb whiplash-style claims, and to secure proportionate implementation of new data protection laws which do not unnecessarily hamper insurers' ability to share data to prevent fraud. The industry remains alive to the ongoing threat posed by the mobility of fraudsters and the ABI is working alongside the travel sector to counter the recent epidemic in false food poisoning claims.

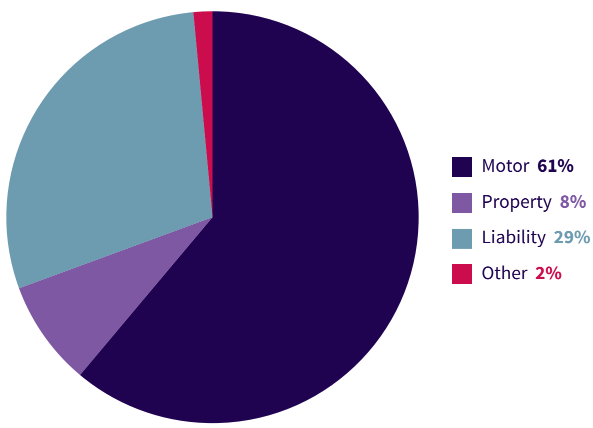
Figure 57: GI detected fraud volume (000s) and value (£m, 2004-2016)



The ABI continues to make good progress in implementing the recommendations of the Government's Insurance Fraud Taskforce, notably in relation to increasing consumer understanding of insurance, the publication of counter fraud good practice guides, and expanding the scope of data-sharing activity. The current focus is on developing a long-term counter fraud communications strategy to identify hard-hitting messaging that raises awareness of the severe and long-lasting consequences of fraud, and resonates with opportunistic fraudsters, policy makers and regulators alike.

The industry remains resolute in its determination to crackdown on insurance fraud, as is demonstrated in its increased investment in the IFB, enabling it to expand the scope of its investigative activities, renewal of the IFED contract for a further three years and evolution of the Insurance Fraud Register. We recognise that there is absolutely no room for complacency. Insurance fraudsters are ever resourceful and inventive and the industry's core initiatives, which make a key contribution to the industry's joined-up strategy, will help to ensure the industry's honest policyholders are protected.

Figure 58: GI detected fraud value, split by line of business (%, 2016)



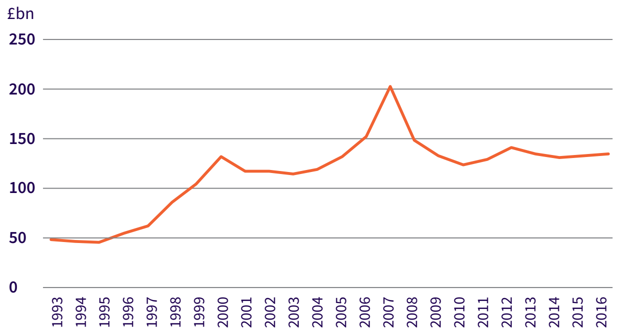
Section 3
Life and long-term savings

By Lauren Willcox – Data & Analytics Adviser (Life & Long-Term Savings)

Summary

At the highest level, 2016 – the first full calendar year following the pension freedoms - appeared to be a relatively static year in the Life & Long-term savings market. Overall UK premium income remained consistent with the previous year, with an increase in Gross Written Premiums of just 1.9% to £180 billion. Net written premiums showed a decrease, as reinsurers' share of premiums increased by 5%. Total UK Claims incurred also showed a small increase of 2.5% to £147 billion.

Figure 59: Total gross written premium for UK long-term business (£bn, 1993-2016)



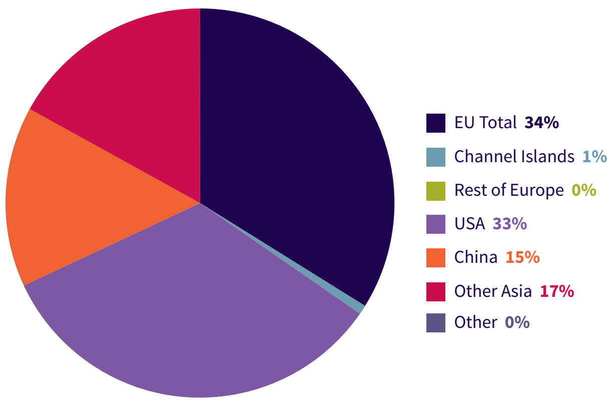
However, when considering the market in more detail, there were a number of large changes in some specific product areas. For life and protection insurance, the market grew by just under 18% to £16.9 billion, with particularly large increases in Investment & Savings Life product premiums. Counterbalancing this, premium income for pension and retirement income products decreased very slightly despite a large increase in work-based pension policies in force. This is considered in more detail in the 'Pensions' section.

The introduction of Solvency II in January 2016 initiated many changes for long-term insurance companies, including enhanced reporting requirements. Most companies updated their reporting systems in order to increase the amount of data and level of detail that is available to them, and data reported under the previous basis is, in many cases, no longer available.

ABI data collections were altered to align with regulatory reporting where possible, resulting in more detailed data. Improved reporting and definition changes have, in places, resulted in the re-classification of products between categories; the impact of this can be seen in the total premiums recorded for some categories such as trust-based pensions and Investment & Savings Life products, which show significant changes from 2015.

UK companies did experience a very successful year of overseas business, with net premium income increasing by 5% to £43.2 billion. This represents over 25% of all long-term premium income in 2016. There was a particularly strong year in the EU, where income increased by almost 20%, and also in China, where the launch of a new product resulted in net premium income growth of over 60%.

Figure 60: Net long-term premium income, split by location (%, 2016)



Additionally, the strong performance of global markets throughout 2016 meant that other recorded (non-premium) income, such as investment income and re-valuation of assets, showed substantial increases from 2015.

Finally, the long-term savings and retirement market has seen a number of company changes through mergers and acquisitions during 2016, following on from the significant merger of Aviva and Friends Life in 2015. While the decrease in popularity in pension annuities, and economic conditions, have led to a number of companies leaving the annuity market all together, two major retirement providers, Just Retirement and Partnership Assurance, merged in April 2016. The Phoenix Group also acquired both AXA Wealth in October and Abbey Life in December 2016. Continuing into 2017, Aberdeen Asset Management and Standard Life merged in the summer to form Standard Life Aberdeen.

Pensions

Despite the positive impact of auto-enrolment on the number of customers saving towards a pension, overall it has been a somewhat deflating year for pension providers. Total GWP across work-based and individual pensions decreased to £90.5 billion in 2016 from £107.3 billion the year before.

With increasing contract numbers and decreasing premiums, the implication is that the average premium is decreasing and customers are saving less than in previous years. However, the difference may not be as considerable as it first appears, as data is collected at a contract and not customer level, making it difficult to tell where customers may have savings in multiple pots.

Trust-based pension premiums, including Defined Benefit and Defined Contribution schemes as well as Group Additional Voluntary Contributions (AVCs) and Trustee Investment Plans (TIPs), showed the largest decrease in premiums – a 17% drop from 2015. There was, however, an associated decrease in overall contract numbers of 5%.

This overall decrease was not unexpected as new business premiums for trust-based pensions, which are collected quarterly by the ABI, also showed decreases throughout 2016, and this trend has continued into the first two quarters of 2017 too.

This decrease can, in part, be explained by the decline of Defined Benefit Schemes, which have steadily decreased in membership over the last 16 years, with only 51,000 contracts in force by 2016. It is also possible that the magnitude of this decrease in premiums has been exacerbated by changes in category definitions as a result of Solvency II, causing some schemes to be reclassified into other areas.

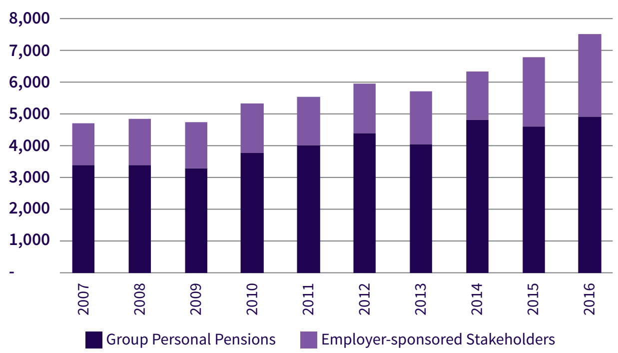
Automatic enrolment

Automatic enrolment was introduced in 2012 in order to encourage more people to save towards their pension. It will make it compulsory for most UK employers to offer a qualifying scheme into which they automatically enrol their staff. This has been applied through a phased scheme starting with the largest employers in 2012, and to be offered by all employers by 2018.

Auto-enrolment is having a positive impact on the number of employees saving for a pension. Through 2016, auto-enrolment was due to become compulsory for just under half a million small businesses[66], and statistics from The Pension Regulator show that by the end of 2016, over 370,000 employers confirmed their compliance and 7.1 million eligible employees auto-enrolled[67].

For ABI data providers, this led to an increase in work-based pensions contracts of 11% to almost 7.5 million. The average regular annual payment into these pensions is £2,700 (this excludes one-off payments). This is a very small increase of only £8 per contract per year, despite the expected contribution level increase to 8% by 2019[68].

Figure 61: Individual Pensions Contracts (%, 2016)



Master Trusts, which are multi-employer occupational pension schemes, are thought to be a popular option for smaller employers starting auto-enrolment schemes. Their contracts are included within work-based pensions and are likely to be contributing to the increase in contracts in 2016. It is worth noting that ABI figures may be significantly understating the full impact of auto-enrolment as two major Master Trust providers, NOW Pensions and the National Employment Savings Trust (NEST), are not ABI members. Indeed, NEST offers a free service to employers and so is likely to be especially popular with small and young companies.

New Master Trust business is now reported to the ABI, and £820 million of new premiums has been recorded in the first half of 2017, accounting for around 13% of all contract-based, work-based pensions' new premiums.

While the total number of Group Personal Pension contracts, including Master Trusts, increased by 7%, another work-based pension product, Employer Sponsored Stakeholder pensions, also showed a surge in popularity in 2016, with total contracts increasing by 19% to 2.5 million. This could also potentially be related to auto-enrolment if some employers are using their existing schemes as their auto-enrolment qualifying scheme.

Individual pensions

With work-based pensions growing in popularity, individual pensions still make up an important part of the market by offering savers a flexible way to save towards a

[66] http://www.thepensionsregulator.gov.uk/press/pn16-01.aspx
[67] http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf
[68] http://www.thepensionsregulator.gov.uk/doc-library/increases-in-minimum-contributions-automatic-enrolment.aspx

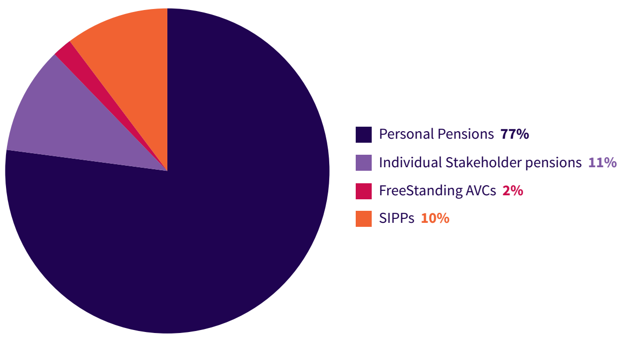
pension themselves.

The number of pure individual policies, such as personal pensions and individual stakeholder pensions, grew slightly in 2016, to 13.3 million policies. Personal pensions still make up the majority of these contracts (77% of all individual contracts) although Self Invested Personal Pensions (SIPPs) are steadily increasing in popularity, as are Individual Stakeholder pensions.

Figure 62: Change in number of contracts from 2015 to 2016

Product	Number of contracts (000s) 2015	Number of contracts (000s) 2016	Percentage change
Personal Pensions	10,262	10,287	+0.2%
Individual Stakeholder Pensions	1,291	1,425	+10.4%
Free Standing AVCs	254	262	+3.2%
Self-Invested Personal Pensions	1,135	1,372	+20.9%
Total	**12,943**	**13,346**	**+3.1%**

Figure 63: Number of work-based pension contracts (2007-2016)

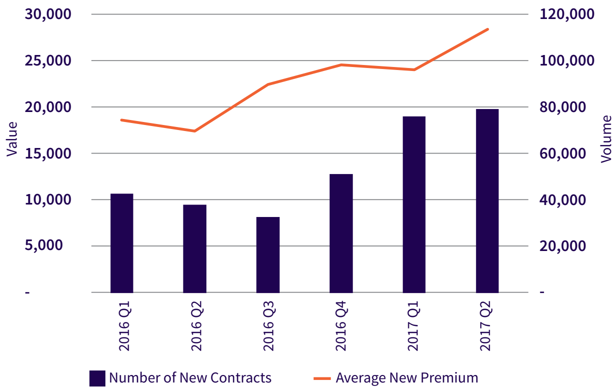


SIPPs, which give customers greater flexibility regarding how their pensions are invested - often offering wider investment options than Personal Pensions - now make up over a tenth of all individual contracts. Single Premiums contracts have shown the largest change, with an increase of 20% to 1.3 million contracts in 2016.

New Single Premium SIPPs business has been steadily increasing since 2015, both in terms of new contracts and new premiums. In the final quarter of 2016, 13,000 SIPPs were sold with an average of £98,000 invested.

This increase in Single Premiums SIPPs is likely to be related to the 2015 pension reforms and customers transferring their pensions to SIPPs in order to take advantage of their flexible options at retirement. This could include some customers completing transfers from Defined Benefit schemes to Defined Contribution schemes. Indeed, 1,700 of these transfers were reported by ABI members in April to September 2016.

Figure 64: New Single Premium SIPPs sales, volume and average value (£, 2016Q1-2017Q2)

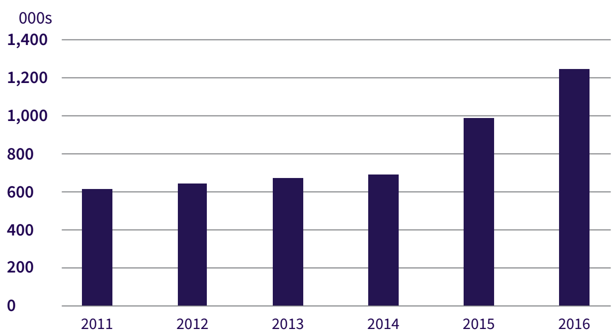


Bulk annuities

The nature of the bulk annuity market is such that there are often large fluctuations in new business from quarter to quarter and year to year, dependent on when a large transaction has taken place.

2016 was a significant year for bulk annuity business, with the total number of pensions that have been insured through bulk annuities increasing from 980 million to 1.22 million[69]. New bulk annuity premiums, including Bulk Buy-outs, Bulk Buy-ins, Bulk Purchase Annuities and Longevity Insurance, have been steadily increasing since 2012 and topped £2.5 billion in 2016.

Figure 65: Number of lives covered by bulk annuities (000's, 2011-2016)



This increase in 2016 was widely predicted with news coverage of pension deficits and the EU referendum result leading to uncertainty, and the expectation that companies may de-risk their pension plans. The high-profile BHS collapse and following pension scheme issues only reinforced this view, and the trend is expected to have continued into 2017.

A number of large bulk annuity purchases were reported in 2016, such as the bulk buy-ins of the ICI pension fund by Legal & General and Scottish Widows, Canada Life's bulk buy-in to Cancer Research, and Legal & General's buyout of a Rolls-Royce pension plan.[70]

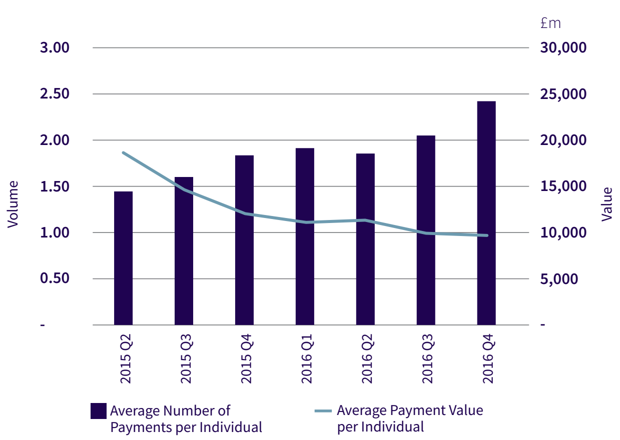
[69] This is recorded as the "Number of Lives" covered by bulk annuities
[70] https://www.lcp.uk.com/media-centre/press-releases/2017/03/legal-general-leads-for-buy-ins-and-buy-outs-in-2016/

Retirement income

The introduction of the pension flexibilities in April 2015 continues to have a clear impact on the retirement market, with customers taking advantage of the new options available to them at retirement. However, after a sharp increase in cash withdrawals, and decrease in annuity sales, evident through 2014 and 2015, the market has started to settle.

The initial spike in cash withdrawals through the first two quarters after the reforms were introduced was predicted. However, this reduced fairly quickly, and statistics produced quarterly by HMRC[71] show an increase in the regularity of withdrawals, and an associated decrease in the average withdrawal value across the end of 2015 and into 2016. This indicates that the proportion of people withdrawing very large cash amounts from their savings dropped following the initial surge. People are now moving to more sensible regular withdrawals through Uncrystallised Fund Pension Lump Sums (UFPLS) or Drawdown.

Figure 66: Flexible payments per individual, volume and value (£, 2015Q2 - 2016Q4)



Despite this decrease, ABI statistics indicate that there are still a large number of customers making full withdrawals of their savings on first access to their pots. In the year from Q2 2016, approximately £3.6 billion was withdrawn over 227,000 full withdrawals.

Figure 67: Number and value of withdrawals per quarter (2016Q2 - 2017Q1)

Period	Number of withdrawals	Value of withdrawals
2016 Q2	61,000	£860m
2016 Q3	55,000	£768m
2016 Q4	57,000	£996m
2017 Q1	54,000	£957m
Total 2016	**227,000**	**£3,581m**

It is worth noting, however, that this data does not identify where customers have access to multiple pension pots and so it is difficult to tell whether people are accessing their whole pension pot early or if they have savings elsewhere.

Not all holders are immediately accessing their cash. In fact, at the end of Q1 2016, there were 4.8 million pensions held by those aged over 55 who have not yet touched their pensions, and the demand for retirement income products (pension annuities and drawdown products) has also remained fairly steady through 2016.

Another consequence of the reforms was customers electing to give up their Guaranteed Annuity Rates to take advantage of other options, including taking cash from their pots. The percentage of those giving up the rates in April to September 2016 was 52%, with many of these (66%) choosing to fully encash their pots instead.

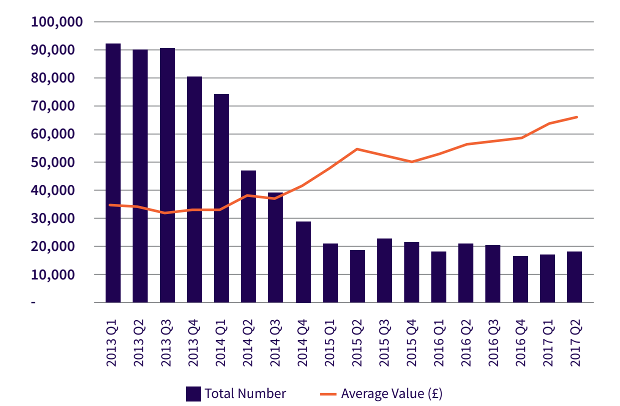
One of the other key changes for the pension reforms for many customers was removing the requirement to purchase an annuity at retirement by making income drawdown accessible to anyone regardless of the size of the pension funds held.

Annuities, which offer a guaranteed income for life (or an agreed defined period), have, in recent years, received negative attention, which may also have been exacerbated by falling annuity rates[72] (although rates have started to increase again from July 2016, when they were at their lowest point).

A drop in annuity sales following the introduction of the freedoms was, therefore, not unexpected, and indeed sales fell from over 353,000 in 2013 to just 82,000 in 2015.

In 2016 sales started to level out with an overall total of over 75,000 annuities sold, peaking at 21,000 sold in Q2. The average fund size invested in annuities has also been increasing and was over £56,400 in 2016 compared to just £33,670 in 2013. In other words, annuities have retained more popularity with customers with larger pots.

Figure 68: Volume and value (£) of annuity sales per quarter (2013Q1 - 2017Q2)



[71] https://www.gov.uk/government/statistics/flexible-payments-from-pensions
[72] http://www.sharingpensions.co.uk/annuity-rates-chart-latest.htm

More people have started to shop around when looking for the best rates available for annuities. 48% of customers bought an annuity through a new provider in 2016 (external sale) while of those who bought an annuity internally, 26% came through an independent or restricted advice channel, suggesting they also investigated alternative providers before deciding to stay put. This has increased into the first half of 2017 too, where 52% of customers bought their annuity from a new provider.

As expected, with the number of sales falling, the number of annuities in force also decreased, with total existing contracts falling from 6,200 to 6,100. Payments from these to customers amounted to £14.5 billion in 2016. The change to annuities in force is not as extreme as for annuity sales, as existing annuities have been bought for life and cannot be exchanged.

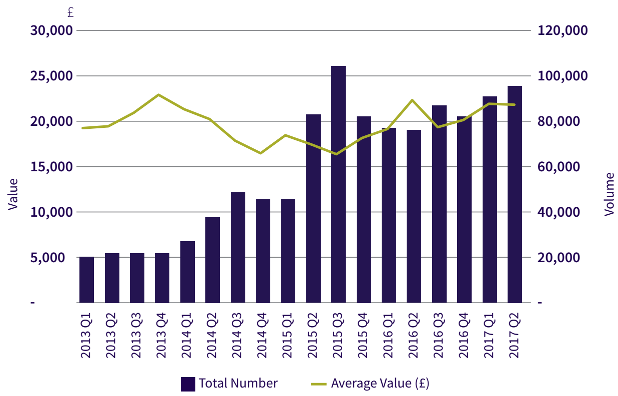
This picture may have been different by the end of 2017 if the proposed Secondary Annuity Market had been introduced. This would have allowed annuity owners to sell their annuities for cash. However, the plan was scrapped in October 2016, which the ABI welcomed.

Enhanced annuities, which offer income based on a customer's health and lifestyle (factors that affect life expectancy), are becoming a growing proportion of annuity sales. Despite a decrease in overall sales, they now make up 34% of all annuity sales, up from 29% in 2013. This suggests that these products have retained some popularity in relation to standard annuities, possibly due to their potential to provide an increased income to those who need it.

This decrease in interest in annuities has caused a massive change in the structure of the annuity market. A number of large providers withdrew from the external annuity market in 2016: Prudential announced their exit in February 2016, Aegon in September and Standard Life and LV in November. The mergers of Friends Life with Aviva and Partnership Assurance with Just Retirement left far fewer providers offering external annuities and reducing the number of options available to customers[73].

With the decrease in annuities there has been an associated increase in drawdown sales, with drawdown now making up 58% of all retirement income product contracts sold - a drastic change from 2013 when they accounted for only 6%. Drawdown products still tend to be bought using larger pots - the average fund size entering drawdown in 2016 was £76,600 compared to £56,400 in annuities.

Figure 69: Volume and value (£) of income drawdown sales per quarter (2013Q1 - 2017Q2)



Where drawdown offers a more flexible way for pensioners to access their money, it is not a guaranteed income for life like an annuity, and so it is important that customers do not take too much money too early. Across all partial withdrawals through drawdown and UFPLS in the six months from April to September 2016, a total of £1.1 billion was withdrawn through 251,000 payments.

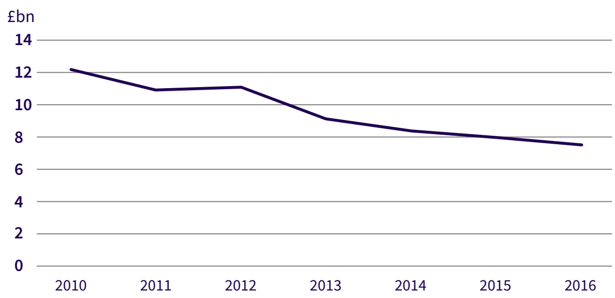
ABI statistics show that, on average, those accessing their pots for the first time in April to September 2016 were taking around 2.7% for the first quarter of access, which seems to be a broadly sensible approach, although those with smaller pots tended to be taking more.

[73] http://www.cityam.com/253784/lv-quits-annuity-market-experts-say-inevitable

Protection

It was a fairly quiet year for protection products in 2016. Despite paying over £13 million a day in claims, the market shrank somewhat, with both total premium income and total benefits paid decreasing from 2015. Excluding Investment & Savings Life products such as endowments, bonds and cash ISAs, overall gross written premiums across both individual and group protection fell by 11% to £7 billion, while the total benefits paid fell 34% to £7.1 billion.

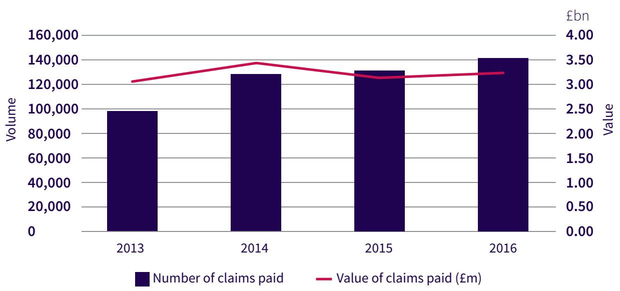
Figure 70: Life and protection gross written premium (£bn, 2010-2016)



Individual protection

The customer value of individual protection products such as Life, Critical Illness and Income Protection insurance is clear from the fact that insurers paid out £3.3 billion in claims through 2016 for individual protection claims. 98% of all claims were paid, including almost 100% of Whole of Life claims and 99% of Term Assurance claims.

Figure 71: Individual protection claims paid, by volume and value (£m, 2013-2016)

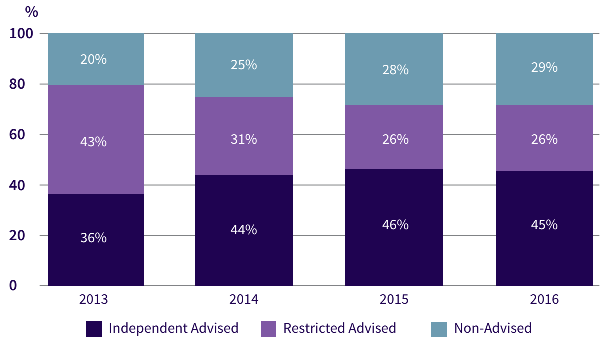


However, the falling contract numbers indicate that more information around the benefits that protection products can offer may be important in future. Total individual protection contracts also decreased by 4% to 26.5m contracts (although group schemes showed an increase in members to 10.9m).

New business for individual protection products remained fairly consistent in 2016, with the total number of new contracts decreasing by 1% from 2015 and new premiums decreasing by 0.3% to £810m in 2016.

With rising interest from consumers in online comparison tools and direct access online to products, there has been a clear increase in the number of individual protection products sold through non-advised channels. Since 2013, the proportion of sales that were not advised has increased from 20% to 29%.

Figure 72: Protection insurance sales, split by advice channel (%, 2013-2016)



Both standalone critical illness (CI) and long-term care have seen decreasing numbers of contracts over recent years. It is worth noting, however, that CI is often purchased as an additional benefit to a life insurance contract. Indeed, in 2015, 454,000 Term or Whole of Life with CI products were sold compared to just 29,000 standalone CI products.

Despite decreases across the market, Individual Income Protection has showed increasing popularity in 2016. New contracts sold in 2016 have increased by 9% to 121,000. Throughout 2015 and 2016 there has been focus on raising awareness and understanding of the benefits that Income Protection offers, which may have contributed to this increase in popularity. The ABI has carried out work in this area with the Money Advice Service and the ‘7 Families’ campaign.

Income protection providers are now more regularly providing early intervention and rehabilitation to support customers to get back to work sooner. It is not yet clear from the statistics whether this has had an impact on individual products; however, in group schemes, the average claim paid has shown a clear decrease following the introduction of these interventions.

Group schemes

Overall group protection showed a small amount of growth in 2016, with total members of group schemes increasing by 1% to 10.9 million. This could be partly driven by increasing employment rates in the UK – ONS employment statistics show that unemployment decreased to 4.9% from 5.4% in 2015[74].

There were large increases in both Group Life and Group Critical Illness scheme members, with Group Life scheme members reaching 8.3 million, Group Critical Illness 590,000.

However, for the first time since 2009, there was an overall decrease in members of Group Income Protection schemes. Having said this, Group Income Protection contracts have been reported elsewhere as increasing, and ABI data in this area may not be representative of the total market as there are large providers outside of ABI membership.

Despite the increases in members, total new group protection business showed large decreases in 2016, with the total number of new contracts falling from 257,000 to 175,000 in 2016.

Group schemes claims paid statistics are collected and published by GRiD. They found that in 2016 protection insurers paid out £1.5 billion in claims per day, helping 24,925 UK families[75].

Investment & savings

The Investment & Savings area appeared to have a successful year in 2016, with gross written premiums reaching £9.4 billion - an increase of 48% on 2015. This includes products such as Endowments, Guaranteed bonds, Distribution bonds, With-profit bonds and Unit-linked bonds.

It was noted by a number of ABI data providers that following the introduction of Solvency II, a combination of changes in definitions and also the availability of more detailed data caused a number of products to be re-classified as investment and savings products for 2016, which may account for some of the increase.

Claims incurred also increased this year, with long-term insurers paying over £16 billion to customers, which is over £45 million every day. Almost half of these claims were individual or group surrenders.

The Investment & Savings premium increase, however, has not been reflected in the number of contracts in force, which actually showed a decrease in 2016, with total contracts falling by 10% to 5.2m.

This decrease in contracts is largely caused by the large decreases in endowments policies which showed an overall decrease of 17% in 2016, while unit-linked bonds and other investments categories both showed increases from 2015.

New UK business sales remained fairly consistent across 2016 from 2015 with total new premiums of £5 billion across endowments and regular premium investment business such as bonds and purchased life annuities. Offshore business, however, has been decreasing since 2011, and fell a further 7% in 2016.

Looking to the future, the new Lifetime ISA was introduced in April 2017 offering savers the opportunity to invest up to £4,000 annually into a Cash or Stocks and Shares ISA and receive a 25% bonus from the government. Access to these savings are essentially restricted to those who are:

- buying a first home
- aged over 60
- terminally ill

The Lifetime ISA is not yet offered widely by providers, but the ABI has started to monitor sales of ISAs with the intention of tracking Lifetime ISA use moving forward. In the first half of 2016, £3.4 billion was invested in ISAs, with a growth of 43% in Q2 from Q1. How the Lifetime ISA impacts both the ISA and wider Long-Term Savings market will be important to monitor as its popularity grows.

Life insurance fraud

The long-term insurance industry has shown some success in 2016 at reducing the possibility of life insurance fraud, with the total number of life fraud cases down by 7% from 2015. This decrease continues the long-term trend of decreasing fraud volumes and exposure, with the total exposure in 2016 measuring £6.7m, only 16% of the value seen ten years ago.

Insurers have also made progress in preventing fraudulent activity before it can cause losses, with the proportion of fraud prevented increasing by 5% from 2015.

Despite a high profile life insurance fraud case reported in 2016, life fraud cases actually showed a large decrease from 2016.

There has also been some focus on the threat of pension fraud and scams through 2016 and 2017 following the introduction of the pension reforms. Fraud cases in this area have remained consistent with previous years.

Only Investment fraud saw an increase in fraud cases from 2015, where the number of detected fraud cases almost doubled to 165, which was due to a 46% increase in the number of cases regarding investment surrender, repurchase or maturity fraud.

With such low volumes of fraud recorded, it can be difficult to make any statistically significant conclusions about the figures; however, the increase of investment fraud may be of concern to insurers over the coming years.

[74] https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/timeseries/mgsx/lms
[75] https://grouprisk.org.uk/2017/05/08/group-risk-industry-supports-record-number-families-2016

ABI contacts

Matt Cullen

Head of Strategy, Data & Analytics

Matt.Cullen@abi.org.uk

020 7216 7513

ABI Statistics Helpdesk

ABIstats@abi.org.uk

020 7216 7390

ABI Member Relations

ABImemberrelations@abi.org.uk

020 7216 3333

Notes

Association of British Insurers
One America Square, 17 Crosswall,
London EC3N 2LB
T: 020 7600 3333 | **abi.org.uk**

February 2018