

# PRESS RELEASE

Friday, 24<sup>th</sup> April 2009

## Commercial Non-Life Insurance Brokers in Europe

***The current recession is expected to increase brokers' share of the commercial non-life insurance market in Europe, and to increase market concentration***

### *Introduction*

The information contained in the following press release is drawn from Finaccord's recently completed market research studies titled *Commercial Non-Life Insurance Brokers in Northern and Central Europe* and *Commercial Non-Life Insurance Brokers in Southern and Western Europe*. These are unique reports based on a survey of some 775 brokers across Europe that provide the most thorough analysis of the commercial non-life insurance broker market yet published at a pan-European level. Countries covered by the research are Austria, the Czech Republic, Denmark, Germany, Hungary, Norway, Poland, Slovakia, Sweden and Switzerland for Northern and Central Europe, and Belgium, France, Ireland, Italy, the Netherlands, Portugal, Spain and the UK for Southern and Western Europe.

### **Size and concentration of commercial non-life insurance broker market**

#### *Brokers dominate distribution in Southern and Western Europe*

Brokers are the most important single distribution channel for commercial non-life insurance in Europe, and Finaccord estimates that the revenues earned by brokers from this market were worth €10.4 billion in 2008 across 18 countries. There are marked differences between Southern and Western Europe and Northern and Central Europe: in the former, brokers dominate distribution and control an estimated 76% of the commercial non-life insurance market, while in the latter they hold a much lower distribution share of 43%. Combined with the much larger size of Southern and Western European commercial non-life insurance markets, brokers' revenue for this region is estimated by Finaccord at €8 billion for 2008, with the Northern and Central European region contributing the other €2.4 billion, most of which is attributable to Germany.

#### *Market concentration is lowest in Central Europe*

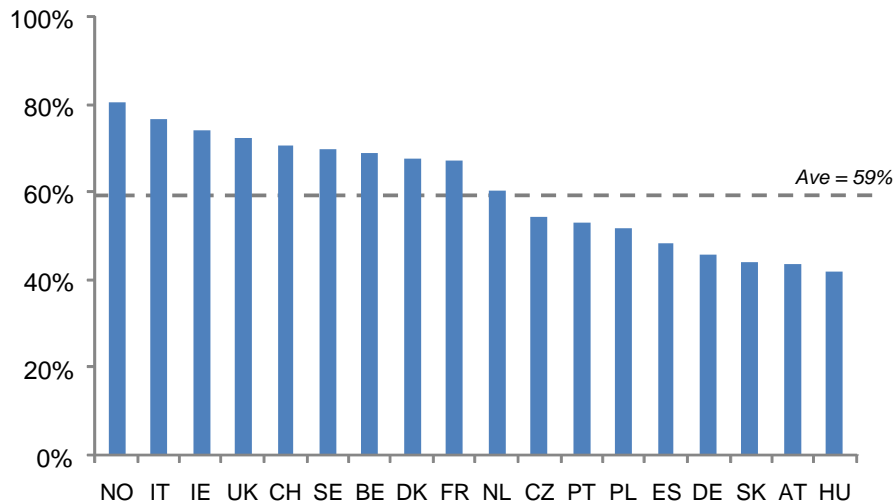
Although the recession will put severe pressure on brokers in the short term, Finaccord anticipates that they will increase their share of the market as a result and that market concentration among brokers will rise as well. The recession will force under-capitalized brokers to go out of business or to merge with stronger ones, resulting in a more concentrated market. Concentration is likely to be fastest in the Czech Republic, Hungary, Poland and Slovakia because the number of brokers in these countries has expanded rapidly in recent years, with brokers able to take an increasingly large share of a growing commercial non-life insurance market. With premium volumes likely to fall in 2009 and potentially in 2010 as well, this will force a period of consolidation.

As the graph overleaf shows, the market concentration in these countries is currently below the weighted average of 59% for Europe in these 18 countries as a whole.

Naturally, the three global brokers, Aon, Marsh and Willis, are expected to be among the brokers making acquisitions at the bottom of the market in Central Europe, as their market share is lower here than elsewhere in Europe. According to Finaccord's research, these three brokers together control an average of 41% of the commercial non-life premiums handled by brokers in Southern and Western Europe against 25% in Northern and Central Europe, and just 21% when excluding their Nordic strongholds of Denmark, Norway and Sweden. Other acquisitive brokers include Martens & Prahl (Germany), ING Assurantiemarktoren and Unirobe Meeùs (Netherlands), Patris (Portugal), Direct and Söderberg & Partners (Sweden) and Bluefin, Cullum Capital Ventures, Oval and Towergate (UK).

### Estimated market concentration of top ten commercial non-life insurance brokers, by country in Europe

Share of market held by ten largest brokers, %



Source: Finaccord commercial non-life insurance survey

### Estimated market concentration of top ten commercial non-life insurance brokers, by country in Europe, (data)

%	Share of market held by top 10 brokers
Norway	80%
Italy	77%
Ireland	74%
United Kingdom	73%
Switzerland	71%
Sweden	70%
Belgium	69%
Denmark	68%
France	67%
Netherlands	61%
Czech Republic	55%
Portugal	53%
Poland	52%
Spain	48%
Germany	46%
Slovakia	44%
Austria	44%
Hungary	42%
<b>Weighted average</b>	<b>59%</b>

Source: Finaccord commercial non-life insurance survey

## **Impact of recession on distribution of commercial non-life insurance**

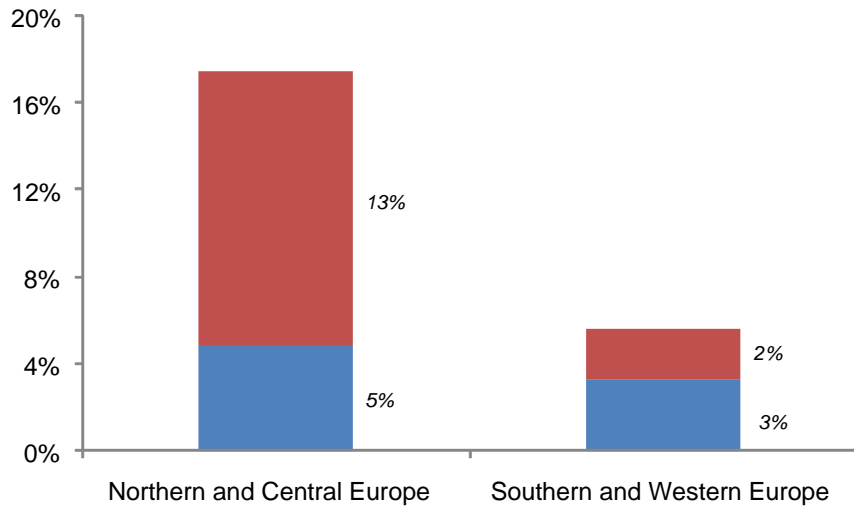
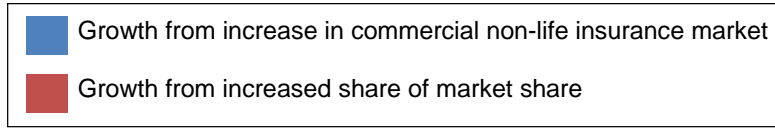
*Brokers stand to increase their share of the market*

The recession is expected to reduce demand for commercial non-life insurance premiums in 2009 and possibly in 2010, as some companies close down completely, other reduce operations and headcount, or reduce cover to the minimum legal requirements. Certain lines of business, such as construction insurance, will suffer more than most. While some brokers interviewed by Finaccord expect greater demand for directors' and officers' liability insurance and for credit insurance, insurers may not wish to increase their exposure to these lines of business at this stage of the recession.

While this bleak outlook will cause serious problems for many individual brokers, Finaccord expects the brokerage channel to benefit overall. If companies try to reduce insurance costs by looking for cheaper prices, they will turn to brokers instead of direct sales forces and tied agents which are widespread in much of continental Europe although not in Ireland or the UK. In addition, very few agents have the scale of the leading brokers, and so agents are likely to suffer more from a lack of capital during the downturn. Recessions accelerate economic change as well, and brokers are best placed to benefit from this because they tend to be better than other channels at developing new specialisms, whether for new industries such as insuring renewable energy generators, or new packages, such as those created by wholesale brokers.

As a result, Finaccord forecasts that brokers will increase their revenues after the recession has ended more from gains in market share than from increases in the underlying size of commercial non-life insurance markets, where overall growth is expected to be weak over the period 2007 to 2012. As shown in the graph overleaf, the best opportunities for growth lie in Northern and Central Europe, where brokers are expected to advance their share of the commercial non-life insurance market most, increasing their revenue by 13% from gains in market share compared to 5% from growth in commercial non-life insurance premiums. However, because brokers are already dominant in Southern and Western Europe, their ability to grow their share is much more limited, and growth for brokers' revenues from commercial non-life insurance across the region is forecast to be just 5% over this period.

### Forecasts for growth in brokers' revenue from commercial non-life insurance by region in Europe, 2007-12



Source: Finaccord analysis

David Parry, a consultant at Finaccord, commented:

*“Although the length and depth of this recession remain unclear, it is possible to think about the likely winners and losers from the economic crisis. Brokers can be more flexible and innovative than direct sales forces or tied agents, and can help companies to reduce the cost of their insurance. In addition, weaker brokers will be under pressure financially, creating opportunities for the stronger ones to make acquisitions at a low price. However, the response of banks is less obvious: will they make a determined effort to become commercial non-life insurance intermediaries themselves, to replace income lost from banking activities, or do they lack the ability to invest in this field?”*

*About Finaccord*

Finaccord is a market research, publishing and consulting company specialising in financial services. It provides its clients with insight into and information about major issues in financial services in the UK, Europe and further afield, with a particular focus on marketing and distribution topics such as affinity marketing, bancassurance and strategic alliances. It bases its published information, research projects and consultancy assignments on robust data and knowledge rather than supposition and theory. By virtue of its international network of consultants, it is able to deliver information quickly and accurately across a range of countries worldwide.

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