

The Report

On 13 June 2005 the EC initiated a sector competition inquiry into business insurance. The subsequent interim report, published in January 2007, received a large amount of attention from industry stakeholders and was the subject of a public hearing on 9 February 2007.

On 25 September 2007, the EC published its final report. In the report the Commission's Competition Directorate confirmed it has concerns about key areas such as:

- the prevailing practice excluding participants in the so-called "*follow market*" from offering different terms and conditions than those offered by the lead insurer, which it believes may be anti-competitive. In particular, the EC identifies "*most favoured*" clauses which some reinsurers impose to ensure they receive the best terms and conditions. Although the report does not state that the law is being infringed, the EC believes that premium alignment is not intrinsic to the operation of the subscription markets. The EC invites the industry to justify or reform the business practice.
- the transparency of broker remuneration and conflicts of interest. The EC has stated that it will explore the issue in detail in its forthcoming review of the Insurance Mediation Directive.
- the use of long term contracts and renewal extension clauses, particularly where they are used by a dominant company and have an exclusionary effect.

The EC also states that it is yet to be persuaded that the industry's block exemption from certain EU competition rules for some forms of co-operation between insurers, set to expire in 2010, is still necessary. The matter is set to be reviewed in a report to be published in March 2009.

Responses to the Report

Various bodies have already responded to the report including the Association of Insurance and Risk Managers (AIRMIC) and the International Underwriting Association of London (IUA). AIRMIC has stated that it strongly welcomes the EC's support for full transparency in the disclosure of broker remuneration and concurs with the report that multi-year insurance agreements are a legitimate method of providing continuity and stability and are not inherently anti-competitive. AIRMIC states that it regards the subscription market to be an efficient vehicle for spreading risk without reducing competition.

The IUA has echoed AIRMIC's views, commenting that differential pricing already exists for a number of classes of business in the co-insurance and reinsurance markets. Recent press comment suggests that there is interest in submitting a combined market response to the report.

The final report is accompanied by a working document which sets out the detailed findings of the inquiry.

Links

Commission staff working document, accompanying the communication from the commission sector inquiry under Article 17 of Regulation (EC) No 1/2003 on business insurance (final report), 25 September 2007, available at:
http://ec.europa.eu/comm/competition/sectors/financial_services/inquiries/final_report_annex.pdf

EU Sector enquiry: statement from AIRMIC, 25 September 2007
http://www.airmic.com/en/Library/press_release_detail/index.cfm/news/F46A0E32-7694-457F-AF260D84AAB623BA

IUA response to the European Commission sector inquiry into business insurance, 25 September 2007, available at:
http://www.iua.co.uk/AM/Template.cfm?Section=IUA_Circulars&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=3125