



COMPETITION IN THE NON-LIFE INSURANCE SECTOR

Opening Statement of the Chairperson of the Competition Authority at the launch of the Authority's Final Report and Recommendations on Competition Issues in the Non-life Insurance Market in Ireland.

8th March 2005

Good morning, ladies and gentlemen. I would like to welcome you to the publication of The Competition Authority's study on competition in insurance.

Almost exactly this time last year, the Authority published its preliminary report on competition in motor, employer liability and public liability insurance. Then we found that:

- 1 Competition among insurance companies was weak because of barriers to entry and mobility, and high customer switching and search costs; and
- 2 An enormous hike in commissions pointed towards serious competition concerns in the intermediaries (commonly known as brokers) market.

Our final report confirms and fleshes out these preliminary conclusions. It finds that competition in insurance underwriting in Ireland is, at best, sluggish. Profit levels for insurance companies are currently at historically high levels but unlike a competitive market, new or existing companies do not appear to respond very quickly to the profitable opportunities in Ireland. Entry barriers arise because incumbent insurers have preferential or exclusive access to essential cost information.

The same barrier to entry restricts mobility across market segments. As a result, there are extremely narrow relevant markets on which joint or collective dominance is possible. This finding may have implications for some insurance underwriters in terms of obligations to self-assess their compliance with competition law.

Individual motorists, businesses and voluntary groups do not have enough information to help them search for better insurance quotes and when they do search they find limited choice. Intermediaries could play a crucial role in reducing both switching and search costs, thus eliminating one serious impediment to competition. However, instead of being part of the solution, the operation of the intermediary market means that it is more a part of the problem.

Overall, we conclude that competition in both insurance and intermediary markets needs to be more open and more transparent.

Greater competition in the insurance market would make a huge difference to individuals and to the Irish economy.

For one, the numbers are large. The non-life insurance sector in Ireland is worth four billion euro or 4% of GNP. This is equivalent to over €3,000 per household in Ireland each year. If greater competition reduced costs and prices by 5% the gains would be €200m annually or more than €150 for each household.

Second, the impact is broad. Insurance costs impact on virtually all businesses and heavily on some, such as, those in construction and retail. Exporting companies are put at a competitive disadvantage because they pay over the odds for insurance in Ireland.

For many consumers, car insurance is a large and visible monthly outgoing. Less visible but even greater is the indirect cost of liability insurance that we all pay daily as consumers. For example, our weekly grocery bill or the payment for a crèche for a week includes a contribution towards the retailer's or crèche's insurance. In this way, higher insurance costs create small increases in the prices of almost every good and service that consumers buy. Another consideration is the availability and affordability of insurance to voluntary and community groups who provide valuable services to society such as youth groups and housing services.

Third, competition in insurance is essential if external cost reductions are to be fully passed on to customers. Insurance companies have experienced significant external cost reductions in the past 2 years resulting from an upturn in the international market and domestic insurance reforms. Insurance premiums have fallen. At the same time insurers' profits have risen sharply to become higher than they have ever been historically in this country or than they are internationally.

In any sector of the economy, it is when external costs are falling that there is the greatest risk from weak competition. Consumers and business rarely complain when prices fall even if, in reality, they should be falling much more. As in the case of international oil prices domestic customers are least aware of anticompetitive exploitation when external costs are falling.

The lack of full and rapid pass through of cost reductions in the insurance sector is further evidence of sluggish competition in the market. And the numbers here, running at several hundred million euro in a single year, are enormous.

Strengthening competition in the insurance sector is essential if the rest of the Government's insurance reform package is to work.

The Authority makes 47 recommendations to increase competition. These focus on three areas: entry, informed customer choice, and greater openness and transparency. The implementation of these recommendations would:

- 1 Give greater access to the cost information currently held privately by existing insurers, so as to facilitate new entrants on equal terms and enable greater mobility across market segments;
- 2 Reduce the search and switching costs of customers who wish to switch suppliers by requiring greater information disclosure by both insurers and intermediaries; and

- 3 Make the market operate in a more open and transparent manner so that pass-through of cost is visible and policy makers can see that competition is operating in the interests of consumers, something that is not possible at present.

Many of our recommendations are addressed to the financial regulator IFRSA, which has already displayed a commitment to promoting competition and consumer choice in financial services. The Authority will work closely with IFSRA in securing implementation of these reforms.

The Authority is satisfied that no recommendation would increase the overall regulatory burden on Irish business, and that all recommendations are in line with the Government's policy on Better Regulation.

Before I conclude, I would like to take this opportunity to thank:

- the Department of Enterprise, Trade and Employment which co-funded and supported this study;
- the industry participants, business and consumer representatives, and other interested parties who made submissions and attended Authority hearings which enabled us better to understand how the Irish market operates; and
- IFSRA which has worked closely alongside the Authority in promoting customer choice in the insurance sector.

I very much hope that this excellent cooperation will characterise the implementation of our recommendations in the coming months.

My words of thanks would not be complete without mentioning Colm Treanor. For all of the last two years, Colm was the sole case officer working on this insurance study. His hard work, careful attention to detail, and close communication with all the key stakeholders have contributed enormously to the quality of the study. Sadly for us, but happily for Colm, he was recently promoted to a senior management post in the Department of Community, Rural and Gaeltacht Affairs. I am sure you will all join with me in wishing him well there.

At this stage, I will pass the baton over to my colleague Paul Gorecki who, alongside John Evans, completed this study over the past 2 months. Paul will present the main findings and recommendations of the study, and we will then take questions.