June 2024

Marcuson Consulting

Briefing Note: Early findings, UK Motor market 2023





Introduction

This Briefing Note presents the findings from our preliminary analysis of the UK motor market, based on the public disclosures of a sample of leading UK motor insurance firms.

UK motor insurers continued to incur heavy underwriting losses during 2023, which performed even worse than 2022's loss making result. A combination of competitive, legal, regulatory and economic headwinds have placed intense pressure on firms. This early analysis, performed by Marcuson Consulting and covering a sample of insurers making up over 80% of the motor market by premium, highlights the extent of challenges this market faces.

Analysis undertaken

We have taken data from the SFCR reporting of a sample of 17 firms, together making up over 80% of the UK motor market by gross written premium. We plan to update this during the course of 2024 with additional data, particularly from the Gibraltar insurance market, which makes up about 30% of the overall UK motor market.

Key Findings

- UK motor market gross written premium has grown by approximately 19%.
- Disclosed motor combined ratio in Solvency II regulatory returns has increased from 107% to 110%
- This year is the first year in which insurers have moved their accounting basis from IFRS4 to IFRS17. This change has had a material impact on disclosed net premium and combined ratios, most notably for the Admiral Group and Hastings Group
    - For Admiral Group, the reported motor combined ratio increased from 85% to 95%, with an increase in gross written premium of 32% and increase in net earned premium of 220%. However Admiral also restated some 2022 numbers on a basis consistent with 2023 to enable readers to compare results on a consistent accounting basis. This resulted in the 85% combined ratio being restated to 100%. Looked at in this light, Admiral's 2023 results showed an improvement.
    - In the case of Hastings, gross written premium showed an increase of 32%, with the reported net earned premium increasing to 107%. Although The motor combined ratio showed a small increase from 98% to 103%.

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- For both Groups, the increase in net premium appears predominantly due to the treatment of quota share reinsurance under IFRS 17. All other things being equal, the effect of this is to dampen the degree of movements in the combined ratio away from 100%. [1]

- 2023 also saw two significant changes in the makeup of the market:
  - RSA completed an exit from the personal lines motor business.
  - Covea's results for 2023 were affected by its entering into an loss portfolio transfer within another group company in respect of its 2022 and prior underwriting.
- Despite these challenges, motor insurers within this sample remain well capitalised, with the aggregate Solvency Ratio for our sample increasing from 168% to 179% over the year.

The following charts show how our sample of insurers have fared in terms of market share (GWP), UK motor profitability, and financial strength (overall firm SCR coverage). Underlying data for these charts is shown at the end of this briefing note.

Note that we have excluded RSA and Covea from the charts because the significant changes affecting each firm results in data points well outside the normal range.

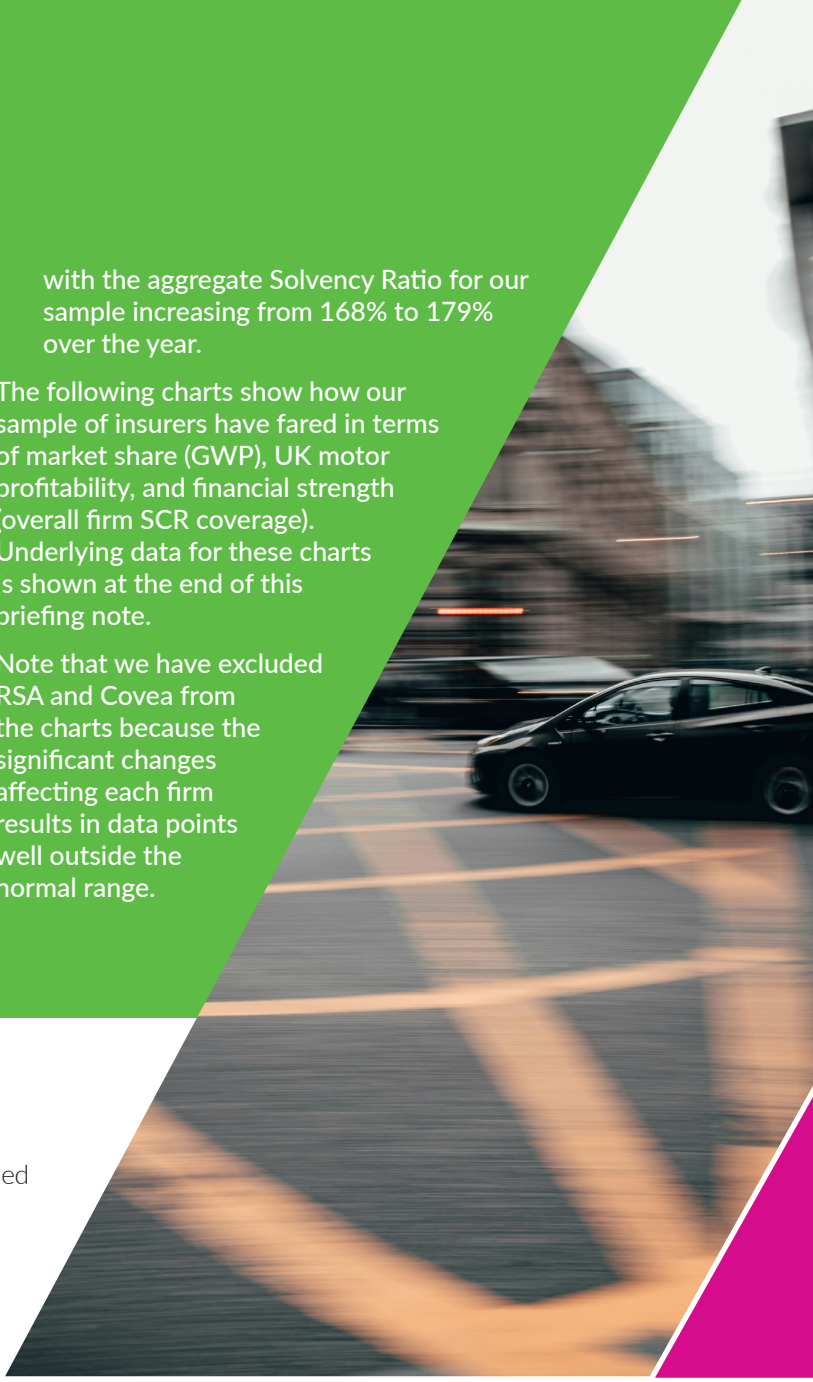
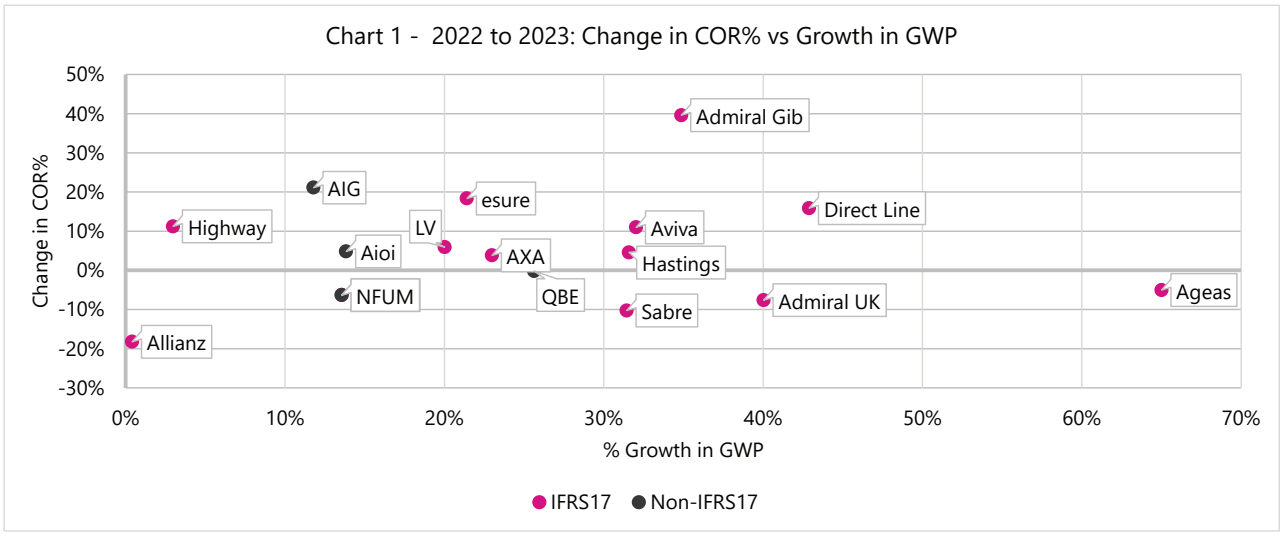


Chart 1 shows the relative change in combined ratio compared to their GWP growth, from 2022 to 2023. The majority of firms grew premium income strongly during the year, while suffering an increase in combined ratio. The apparent large deterioration in Admiral Gibraltar is due to the change in reporting basis to IFRS17 and contrasts with the movement shown in the Admiral UK results. In this and subsequent charts, we have indicated by the colour of the dot which firms shifted to an IFRS17 basis this year.



[1] So for example, if the net premium doubled, a GAAP combined ratio of 90% would become 95% and a GAAP combined ratio of 110% would become 105%.

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Chart 2 shows the change in combined ratio compared to 2023 GWP. Other than for the three largest UK motor underwriters (Admiral Gibraltar, Direct Line and Aviva which all experienced marked increases in combined ratio) there is no strong relationship between size of firm and change in combined ratio.

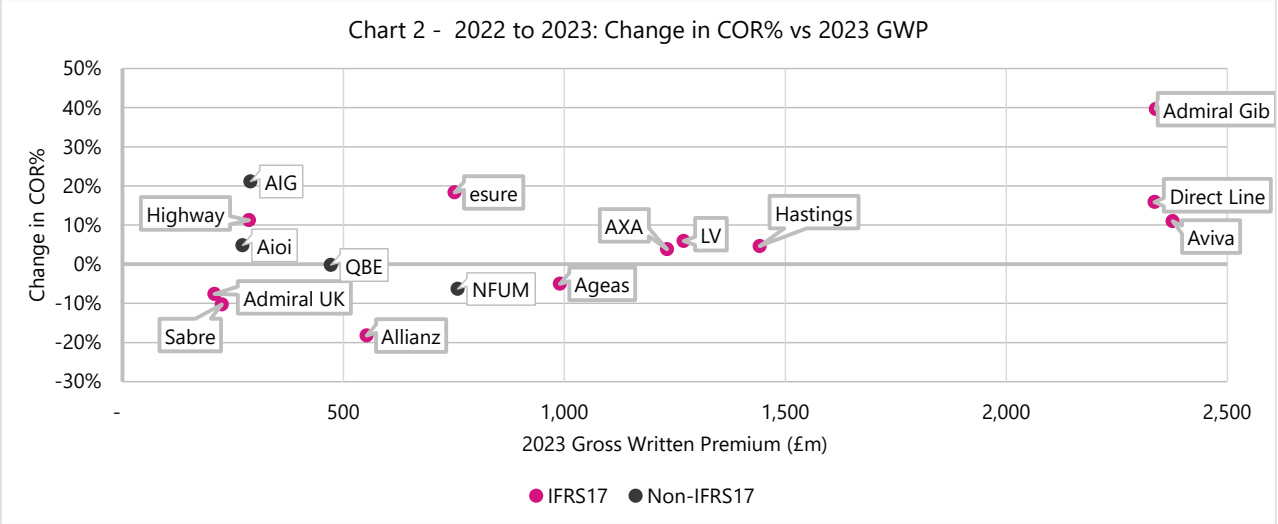
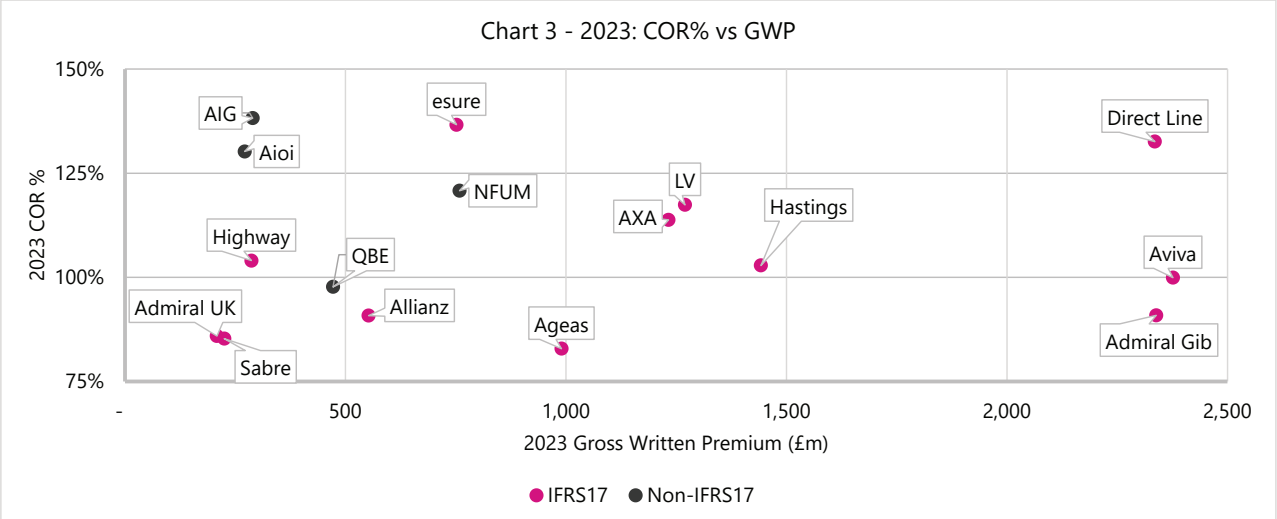


Chart 3 shows the 2023 COR compared to 2023 GWP. There was no strong pattern linking size of UK motor portfolio and combined ratio during 2023.



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Chart 4 compares 2023 Solvency Ratio against 2023 GWP. Overall, insurers remain well capitalised. NFUM, the only mutual insurer in our sample, maintains the highest solvency ratio. The Solvency Ratio for Aioi does not take into account a £40m capital injection made during March 2024.

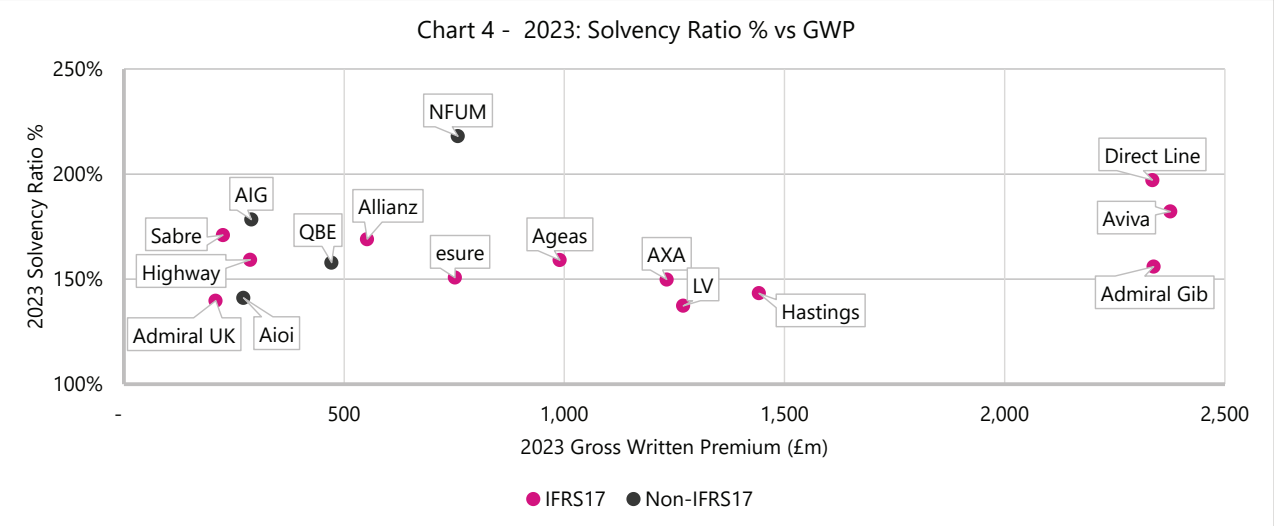


Chart 5 shows firms' 2023 Solvency Ratio against their 2023 COR.

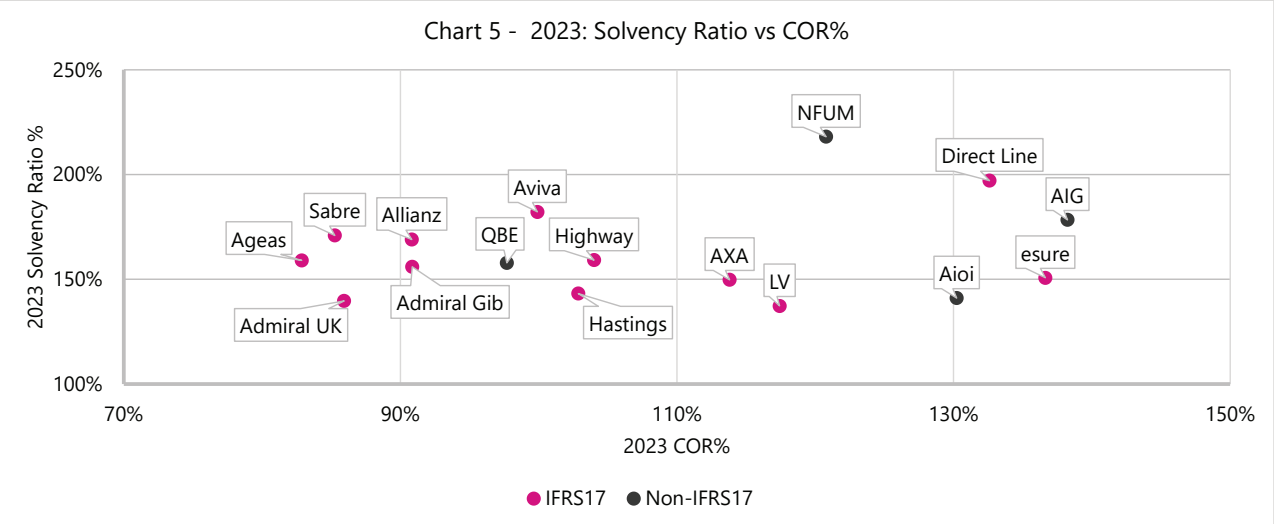
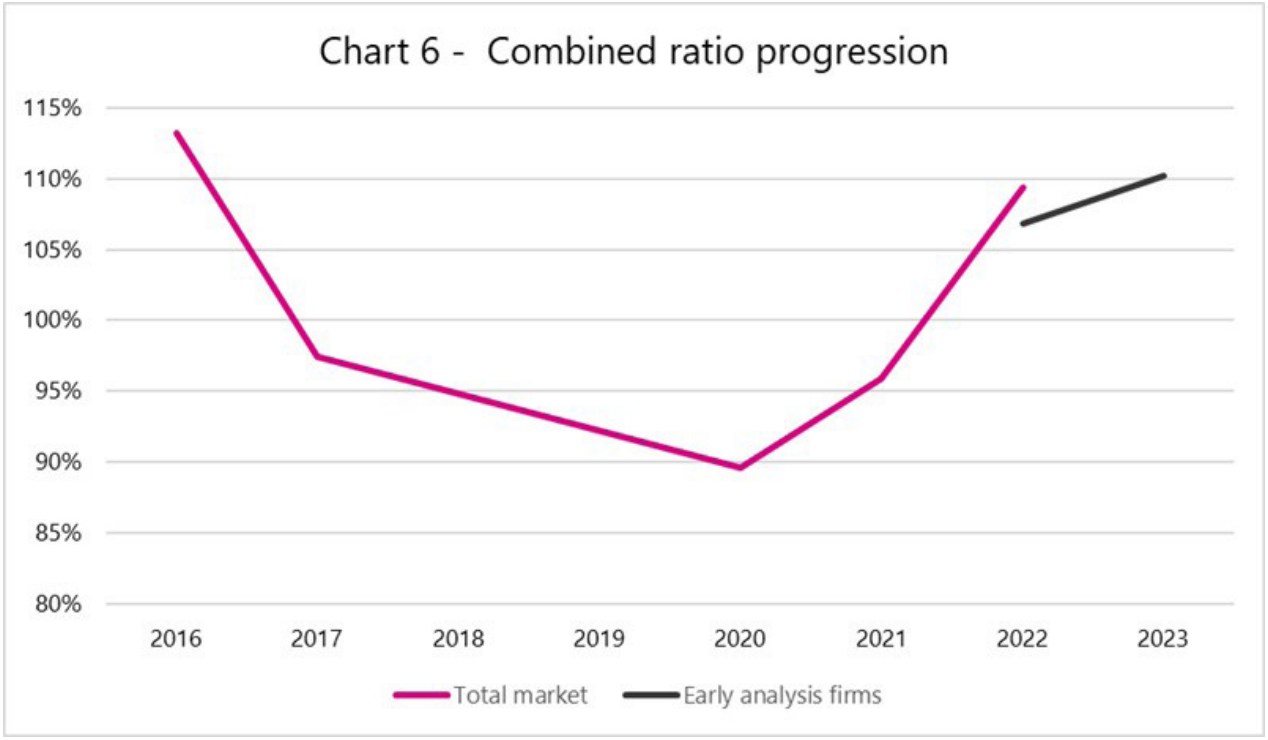




Chart 6 The following chart shows the progression of the UK motor insurance industry combined ratio from 2016 to 2023 inclusive as presented in firms' SFCRs. For 2016 to 2022, the combined ratio is based on the total market, while the separate line for 2022 and 2023 shows the aggregate position of the firms included in this early analysis. The step change between the two lines in 2022 shows the impact of Admiral's restated data in 2023 on the market result.



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Summary of data used

The data we have used for our sample of firms is summarised in **Table 1** below:

Table 1 - Summary of Data used			2022			2023		
Firm	**Abbreviation**	**IFRS17 from 2023**	**GWP £m**	**COR%**	**Solvency Ratio**	**GWP £m**	**COR%**	**Solvency Ratio**
Admiral Insurance (Gibraltar) Limited	Admiral Gib	✓	1,734	65%	133%	2,338	91%	156%
Admiral Insurance Company Limited	Admiral UK	✓	149	93%	134%	208	86%	140%
Aviva Insurance Limited	Aviva	✓	1,800	90%	167%	2,376	100%	182%
Hastings Group Holdings Limited	Hastings	✓	1,096	98%	113%	1,442	103%	143%
AXA Insurance UK plc	AXA	✓	1,002	110%	152%	1,233	114%	150%
Direct Line Insurance Group plc	Direct Line	✓	1,634	114%	147%	2,335	133%	197%
Liverpool Victoria Insurance Company Limited	LV	✓	1,058	111%	123%	1,270	117%	137%
Ageas Insurance Limited	Ageas	✓	600	87%	156%	990	83%	159%
The National Farmers Union Mutual Insurance Society Limited	NFUM	✗	668	129%	218%	759	121%	218%
esure Insurance Limited	esure	✓	619	115%	135%	752	137%	151%
Allianz Insurance plc	Allianz	✓	550	111%	174%	553	91%	169%
QBE UK Limited	QBE	✗	375	98%	152%	472	98%	158%
Royal & Sun Alliance Insurance Limited	RSA	✓	1,220	116%	177%	320	124%	169%
AIG Holdings Europe Limited	AIG	✗	259	114%	160%	290	138%	178%
Highway Insurance Company Limited	Highway	✓	278	94%	140%	287	104%	159%
Aioi Nissay Dowa Insurance UK Limited	Aioi	✗	239	124%	114%	272	130%	141%
Covea Insurance PLC	Covea	✗	313	147%	124%	264	5847%	139%
Sabre Insurance Company Limited	Sabre	✓	171	95%	152%	225	85%	171%

Data for 2022 and prior SFCRs has been taken from the Solvency II Wire database, which is available on subscription (www.solvencyiiwire.com). Data for 2023 has been collated by Marcuson Consulting staff using firms' published 2023 QRTs and SFCR reports.

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Our Methodology

Premium, claims and expenses taken from the *Motor vehicle liability insurance* and *Other motor insurance* lines of business as reported in form S05.01.02 for UK-domiciled insurance companies (we have not included Lloyd's Syndicates, or branches of overseas insurers with permission to write UK business. We have derived the Combined Ratio, a widely used measure of insurance profitability, as (Net Incurred Claims + Expenses Incurred) / Net Earned Premium.

The Solvency Ratio is a widely used measure of insurance company financial strength. It has been calculated here as the ratio of aggregated Eligible Own Funds (financial resources calculated for regulatory purposes) to Solvency Capital Requirement (SCR).

June 2024

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