

Marcuson Consulting

Briefing Note: UK Motor Market 2023 Market-Wide Analysis

August 2024

Introduction

This briefing note updates the findings from our Early Findings analysis of the UK motor market issued in June 2024[1]. It is based on the public disclosures[2] of UK Motor insurance firms and now includes 30 firms based in UK and Gibraltar and comprises over 95% of market gross written premium.



Key findings

UK Motor market gross written premium has grown by approximately 19%.

Disclosed motor net combined ratio of all firms included in our study has increased from 109% (2022) to 112% (2023).

The addition of 13 firms has increased the overall market combined ratio from 110% in our Early Findings analysis to 112%. This means that the average combined ratio disclosed by the additional 13 firms was 139%, considerably worse than the largest firms that were analysed in our Early Findings report in June.

Although insurers generally remain well capitalised, with the aggregate Solvency Ratio increasing from 169% to 179% over the year, several disclosed combined ratio performance during 2023 that, if repeated during 2024, would require other sources of income or capital to avoid impairment to their financial position.

[1] Marcuson Consulting study of leading UK motor insurer performance 2023
[2] QRTs contained in firms' annual Solvency and Financial Condition Reports or SFCRs.

Copyright © 2024 Marcuson Consulting Ltd

Detailed Analysis

Charts 1 to 5 present firms' market share, UK motor profitability and financial strength (see Box 1). Firms domiciled in UK and Gibraltar are colour-coded separately in these charts. New firms in this study have been labelled. Outlier firms have been excluded. Underlying data is shown in Table 1.

Chart 6 (new in this report) compares firms' financial resilience to a repeat of 2023 underwriting losses.

Box 1: Technical Notes

Premiums, claims and expenses have been taken from the *Motor vehicle liability insurance* and *Other motor insurance* lines of business as reported in form S05.01.02 and SCR and Eligible Own Funds as reported in form S23.01.01 and/or related forms of the QRTs attached to firms' year end SFCRs. We have not made allowances for any other sources of income, expenditure or capital beyond that reported through these QRTs. Analysis of data taken from elsewhere in firms' SFCRs or from their annual statutory financial statements may lead to different results.

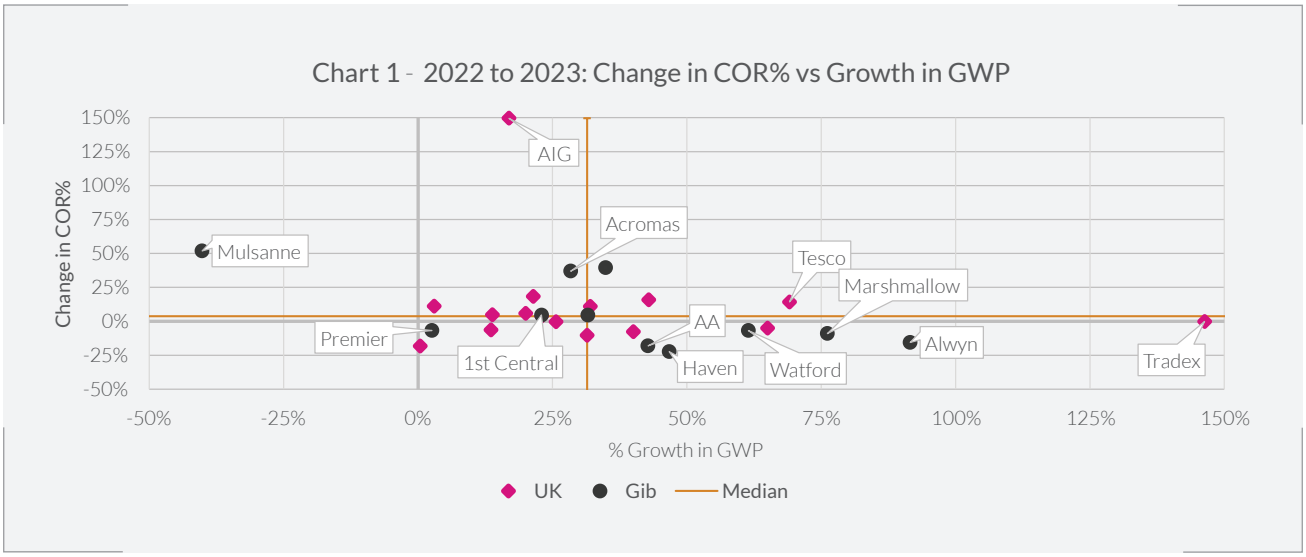
Market Share is measured using UK Motor **Gross Written Premium**. Total 2023 UK motor insurance gross written premium was c. £20 Bn (UK and Gibraltar reporting entities only, excludes business written by Lloyd's of London).

Motor Profitability is measured using firms' **Combined Ratio** or **COR**. This is claims costs plus expenses divided by premium income, all measured net of reinsurance.

Financial Strength is measured using firms' **Solvency Ratio**. This is a firm's financial resources (Solvency II Eligible Own Funds) divided by Solvency Capital Requirements (SCR).

Half of firms reviewed in this report lie either side of the **Median** lines shown on each chart.

Chart 1 shows the change in firms' combined ratio from 2022 to 2023 plotted against their GWP growth over this period. The majority of firms grew premium income strongly during the year with slightly over half of firms suffering an increase in combined ratio.



Copyright © 2024 Marcuson Consulting Ltd

Chart 2 plots the changes in firms' combined ratio against 2023 GWP. In general, the larger firms (writing more than £1 billion of UK Motor gross written premium) all experienced increases in combined ratio. For most firms with smaller UK motor portfolios, there is no clear relationship shown between size of firm and change in combined ratio. However some firms in this group suffered substantial increases in their combined ratio.

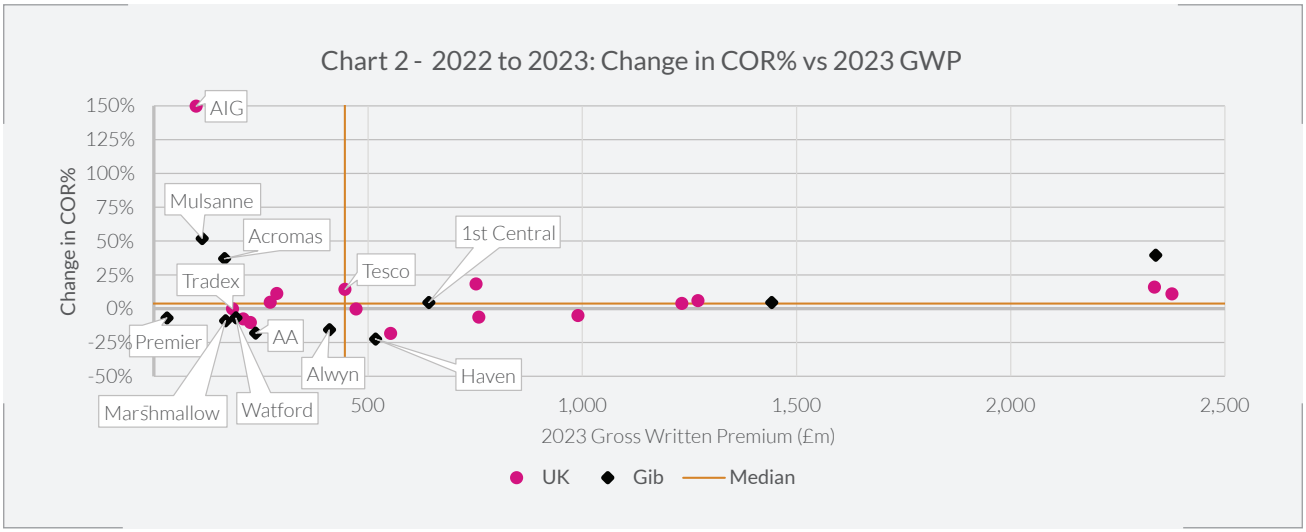
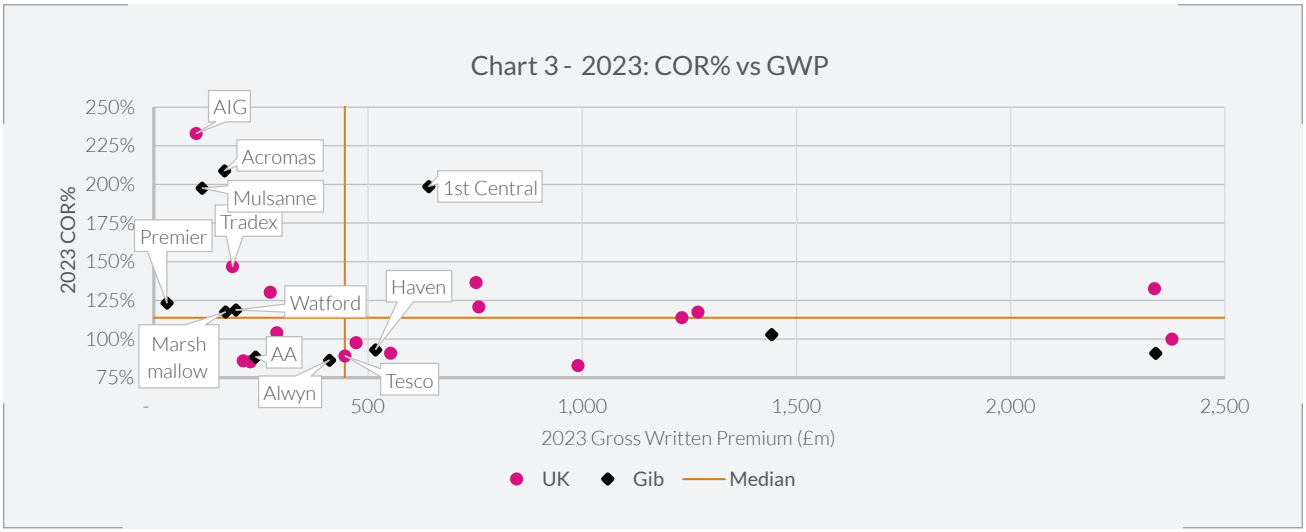
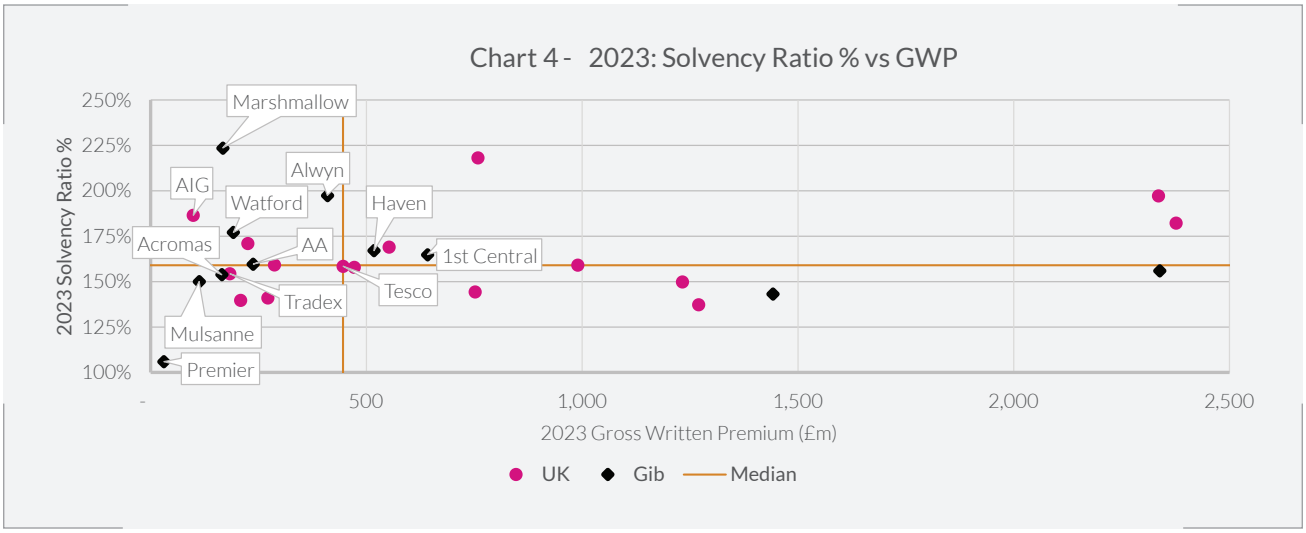


Chart 3 plots firms' 2023 combined ratio against their 2023 gross written premium. For most firms, there is no strong pattern linking the size of a firm's UK motor portfolio with its combined ratio during 2023. A small number of firms suffered combined ratios of c. 200% or more. Note that some firms, for example Haven, reported significant negative expenses in their SFCRs, resulting in a combined ratio that is less than the corresponding loss ratio (claims divided by premiums).



Copyright © 2024 Marcuson Consulting Ltd

Chart 4 plots firms' 2023 Solvency Ratio against their 2023 GWP. Overall, insurers remain well capitalised. Although Premier (bottom left corner) discloses a solo entity Solvency Ratio of close to 100%, it indicates in its SFCR that its parent holding company maintains a group solvency ratio in excess of 140%.



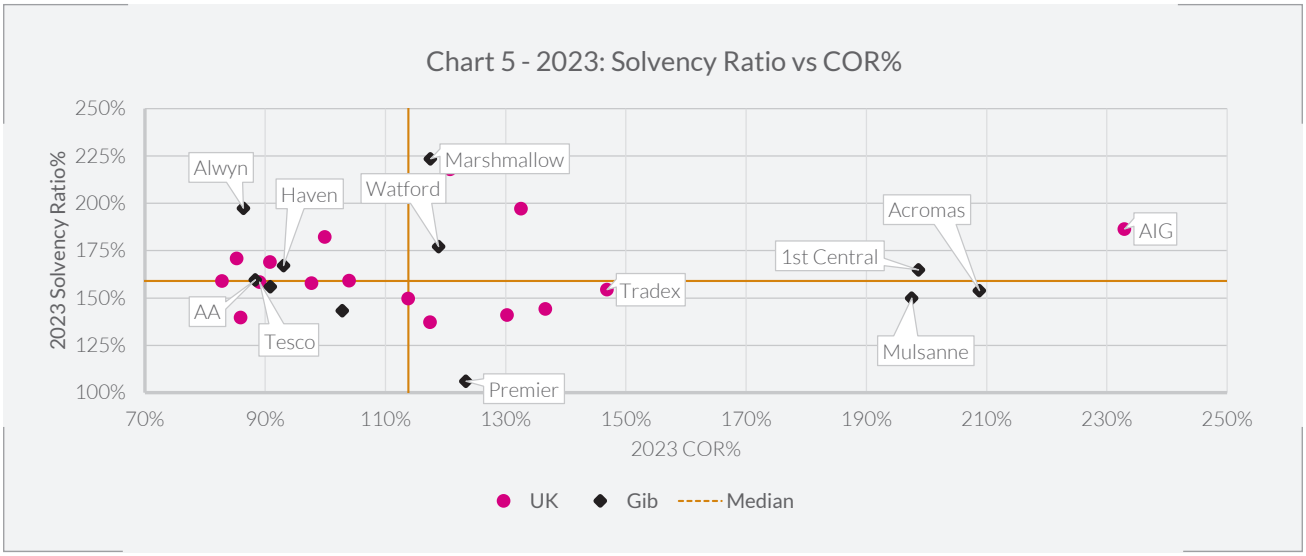


Copyright © 2024 Marcuson Consulting Ltd

Firms' resilience to 2023's challenging UK Motor market conditions

With increasing supervisory interest in the viability of insurance firms' business models, our final two charts investigate the strength of firms' disclosed financial foundations.

Chart 5 shows firms' 2023 Solvency Ratio against their 2023 combined ratio.



It is hard to know how to interpret this chart, in particular how the magnitude of 2023 underwriting losses compares to the financial resources of a given firm. To address this question, we have calculated a resilience measure for firms in our study that we have called the 2023 Loss Impact Indicator. This is the ratio of a firm's UK motor underwriting losses arising during 2023 divided by its disclosed excess financial resources at the year-end. Box 2 sets out a more technical definition. Broadly speaking, firms with a higher indicator have less financial resilience to a repeat of losses at 2023 levels.

Box 2: 2023 Loss Impact Indicator

$$\text{2023 Loss Impact Indicator} = \frac{\text{(2023 Combined Ratio-100\%)}\times\text{Net Premiums Earned}}{\text{(2023 Solvency Ratio-100\%)}\times\text{Solvency Capital Requirement (SCR)}}$$

Copyright © 2024 Marcuson Consulting Ltd



Note that the 2023 Loss Impact Indicator is a simple heuristic measure and care is needed in interpreting the results provided by it or drawing conclusions based solely on this diagnostic metric. For example, it does not strip out prior year reserve strengthening, make any allowance for other sources of income or expenditure, profits from other lines of business underwritten, investment income and gains or for additional financial resources held outside the insurance entity (for example in a group holding company).

Excluding these elements can provide an indication of the extent to which the business models of insurers differ from one another and highlight those that may be reliant on sources of revenue beyond premium income.

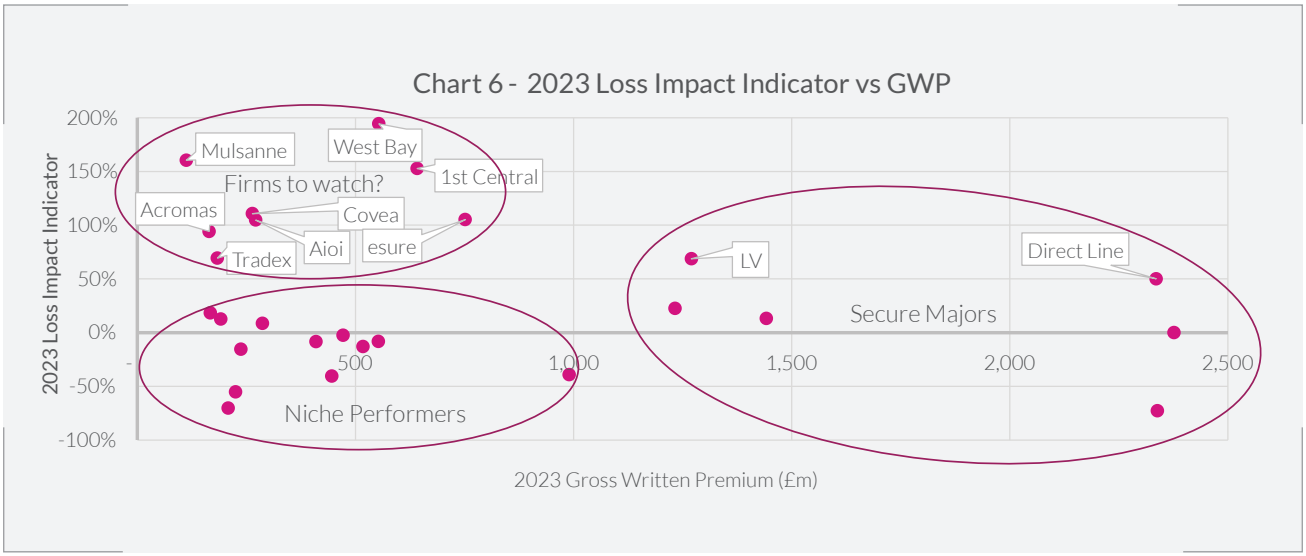
Despite this, we believe it is a helpful way to consider the absolute and relative position of firms. Simplistically and, we stress, without making allowance for the matters described above and the anticipated improved trading conditions during 2024:

- Where a firm has a 2023 Loss Impact Indicator in excess of 100%, this means that a breach of SCR by the end of 2024 would be caused by a 2024 combined ratio performance at the same level as arose in 2023 (and ignoring other sources of income or financial resource).

- Firms with a negative 2023 Loss Impact Indicator are those that disclosed an underwriting profit during 2023.

Copyright © 2024 Marcuson Consulting Ltd

Chart 6 shows firms' 2023 GWP against their 2023 Loss Impact Indicator. Despite the limitations of the Loss Impact Indicator, we believe that it is possible to identify some distinct clusters of firms. These are highlighted using the ovals, with groupings described in Box 3.



Box 3: Grouping firms by 2023 Loss Impact Indicator

Secure Majors

Larger firms in our study, typically with 2023 GWP well in excess of £1 billion. In this group, only LV= and DLG were at or above 50%.

Niche Performers

Smaller firms that disclosed an underwriting profit or only a small underwriting loss during 2023. As a result, they are showing a robust buffer in their financial resources.

Firms to Watch?

Smaller firms that disclosed losses during 2023 of similar order of magnitude or greater than their excess financial resources. Some of these firms have made significant adjustments to their businesses during 2023.

Concluding Observations

2023 was a year of dramatic losses in the UK motor market. Many firms will be hoping that rapidly increasing rates and a calmer inflation outlook will result in much rosier results in 2024.

We believe that the appetite of capital providers to sustain, and regulators to accept, further underwriting losses may be at their limit. Weaker firms now need to use any breathing space offered by a hardening market to determine their best strategy to face the next underwriting cycle and to identify where investments in enhancing systems and processes will yield the greatest returns.

Copyright © 2024 Marcuson Consulting Ltd

Table 1 - Summary of Data Used

Firm	UK/Gib	2022			2023		
		GWP £1m	COR %	Solvency Ratio %	GWP £1m	COR %	Solvency Ratio %
AA Underwriting Insurance Company Limited	Gib	166	108%	165%	237	88%	160%
Acromas Insurance Company Limited	Gib	128	152%	216%	165	209%	154%
Admiral Insurance (Gibraltar) Limited	Gib	1,734	65%	133%	2,338	91%	156%
Admiral Insurance Company Limited	UK	149	93%	134%	208	86%	140%
Ageas Insurance Limited	UK	600	87%	156%	990	83%	159%
AIG UK Limited[3]	UK	84	93%	169%	99	233%	186%
Aioi Nissay Dowa Insurance UK Limited	UK	239	124%	114%	272	130%	141%
Allianz Insurance plc	UK	550	111%	174%	553	91%	169%
Alwyn Insurance Company Limited	Gib	214	102%	187%	410	86%	197%
Aviva Insurance Limited	UK	1,800	90%	167%	2,376	100%	182%
AXA Insurance UK plc	UK	1,002	110%	152%	1,233	114%	150%
Calpe Insurance Company Limited	Gib	2	115%	162%	0	113%	170%
Covea Insurance PLC	UK	313	147%	124%	264	5847%	139%
Direct Line Insurance Group plc	UK	1,634	114%	147%	2,335	133%	197%
esure Insurance Limited[4]	UK	619	115%	135%	752	137%	144%
First Central Underwriting Limited Insurance	Gib	522	190%	154%	641	199%	165%
Hastings Group Holdings Limited[5]	Gib	1,096	98%	126%	1,442	103%	143%
Haven Insurance Company Limited	Gib	353	120%	164%	517	93%	167%
Highway Insurance Company Limited	UK	278	94%	140%	287	104%	159%
Liverpool Victoria Insurance Company Limited	UK	1,058	111%	123%	1,270	117%	137%
Marshmallow Insurance Limited	Gib	95	129%	288%	167	118%	224%
Mulsanne Insurance Company Limited	Gib	188	130%	108%	112	198%	150%
Premier Insurance Company Limited	Gib	30	132%	107%	30	123%	106%
QBE UK Limited	UK	375	98%	152%	472	98%	158%
Royal & Sun Alliance Insurance Limited	UK	1,220	116%	177%	320	124%	169%
Sabre Insurance Company Limited	UK	171	95%	152%	225	85%	171%
Tesco Underwriting Limited	UK	264	78%	159%	446	89%	158%
The National Farmers Union Mutual Insurance Society Limited	UK	668	129%	218%	759	121%	218%
Tradex Insurance Company Limited	UK	74	147%	123%	183	147%	154%
Watford Insurance Company Europe Limited	Gib	119	127%	167%	191	119%	177%
West Bay Insurance PLC	Gib	876	311%	86%	554	-98%	168%

Data has been collated by Marcuson Consulting staff using QRTs contained in firms' published 2022 and 2023 SFCRs. This has been supplemented using the Solvency II Wire database, available on subscription (www.solvencyiiwire.com). Highlighted rows indicated firms added or amended since our Early Findings Report. The majority of these firms are based in Gibraltar.

Technical updates from Early Findings Report:

[3] AIG Holdings Europe Limited has been replaced by its subsidiary AIG UK Limited.

[4] esure Insurance Limited: Solo entity solvency ratio shown in place of Group Solvency Ratio.

[5] Hastings Group Holdings Limited: *Total eligible own funds to meet the group SCR* replaces *Total eligible own funds to meet the minimum consolidated group SCR*.

Copyright © 2024 Marcuson Consulting Ltd

Marcuson Consulting are a specialist non-life actuarial consulting firm based in London. We advise personal, commercial, London market (including Lloyd's), global and legacy insurers and reinsurers. Each year we carry out a review of the regulatory returns of Gibraltar insurers. This year we have extended this analysis to review all the major UK domiciled motor insurers. Please contact us if you would like to discuss the contents of this briefing note, or any other areas where we can assist you; we look forward to talking to you.



Alex Marcuson FIA
Managing Director
alexm@marcuson.co



Terry Yip FIA
Senior Actuary
terryy@marcuson.co

Visit our website to learn more about what we do:
www.marcuson.co

Charts may be reproduced with attribution.

While care has been taken in the preparation of this document, the authors and Marcuson Consulting Ltd do not accept any responsibility or liability to any party placing reliance on any of the material contained in this document.