

## B2B Insurance - UK - January 2018

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“With most insurance premiums rising, businesses are seeking alternatives to the traditional products. Insurers need to adapt existing operating models otherwise new entrants to the industry, who could benefit from quickly adapting to policyholders’ needs, will overtake insurers in the same way that technology-led firms have overtaken incumbents in a number of other industries.”

– Lewis Cone, B2B Analyst

This report looks at the following areas:

### Definition

Business-to-business insurance, or B2B insurance, describes the buying and selling of commercial insurance between an insurer and business. This excludes ‘personal lines’ insurance policies tailored towards private individuals, and instead includes ‘commercial lines’ policies.

The following types of insurance, and their respective commercial aspects, make up a large segment of the B2B insurance market and are quantified in this report:

- **Property**
- **Motor**
- **Liability**
- **Private Medical Insurance (PMI)**
- **Marine, Aviation and Transport (MAT)**
- **Trade Credit**

Other terms used in this report include:

- **(Insurance) Claim:** A formal request to an insurance company asking for a payment based on the terms of an agreed insurance policy. Insurance claims are reviewed by the company for their validity and then paid out to the insured or requesting third party once approved.
- **Claims ratio:** Claims incurred, including claims adjustment expenses, divided by net premiums earned and expressed as a percentage.
- **Combined operating ratio:** Claims incurred and operating expenses in relation to premiums earned, expressed as a percentage.
- **Credit default risk insurance:** The use of a financial agreement - usually a credit derivative such as a credit default swap, total return swap, or credit linked note - to mitigate the risk of loss from default by a policyholder.
- **Direct premiums written:** The sum of the total policy premiums, net of cancellations, associated with policies underwritten and issued by the company’s insurance subsidiaries.
- **Expenses ratio:** The ratio between operating expenses and net premiums earned, expressed as a percentage.
- **Fraud repudiation rate:** The percentage of fraudulent claims by policyholders that insurance companies then use to dispute the future validity of the contract between themselves and the fraudulent company, which leads to premiums no longer being paid by the company in question.
- **Frontier markets:** Countries with investable stock markets that are less established than those in emerging markets.

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- **Gross claims incurred:** The sum of paid claims and change in provision for claims outstanding. This includes the claims costs for insured events during the year, regardless if they have been paid during the same year or not.
- **Gross claims paid:** The total payments made to policyholders named on insurance contracts or to an unnamed third party.
- **Gross debt:** The sum total of debt obligations by insurers or other companies.
- **Gross earned premiums -** The value of gross earned premiums collected by organisations as of the end of the reporting period without any deductions, such as commissions and other expenses. The figure is the GWP plus the difference between the unearned premiums at the beginning of the reporting period and the end.
- **Gross written premiums (GWP):** Premium income accepted during the year, which is quoted gross of reinsurance ceded, but net of reinsurance accepted.
- **Hard market:** When the insurance market, during the insurance business cycle, is characterised by high demand and low supply. When growing demand for insurance increases more rapidly than the available supply of insurance, the outcome is a hard insurance market. In this type of market, insurance is generally more difficult for buyers to obtain. Buyers are also more likely to experience high insurance premiums and steady rate increases, which is why this phase of the cycle is known as a 'seller's market'.
- **Home-foreign business:** Insurance written in one country on risks located in another country. Premiums and losses are usually payable in the country where the insurance is written.
- **Insurance broker:** An independent agent who represents a buyer of insurance, rather than the insurance company, and tries to find the best policy for the buyer by comparing different insurers' services.
- **Insurance policy:** Where considerable insured risk is transferred from policyholder to an insurance company.
- **Liquidity:** The degree to which an asset (policy) can be bought or sold in the market without it affecting the asset's (policy's) price. Assets (policies) that can be easily bought or sold are known as liquid assets.
- **Lloyd's Market:** A market in which independent insurance underwriters join together in syndicates to sell insurance, mainly through brokers, under the umbrella of the Lloyd's brand.
- **Net written premiums (NWP):** Premium income net of reinsurance ceded but gross of commission and excluding premium tax.
- **Non-life insurance:** Primarily used to protect a business' financial investments, such as property, image, and other items of monetary value, and ensure that assets are safely covered for investors. There are a number of regulations and guidelines pertaining to non-life insurance items, all of which vary based on the customer's specific situation.
- **Premiums earned:** The portion of GWP that pertains to the financial year, meaning premiums written adjusted for changes in the provision for unearned premiums.
- **Reinsurance:** The cover insurance companies can purchase to protect themselves against large losses or an unexpected aggregation of losses.
- **Risk management:** The process of identification, analysis, and either acceptance or mitigation of uncertainty in investment (insurance policy) decision-making.
- **Soft market:** A soft market is often referred to as a 'buyer's market' as insurance is usually easier for companies to obtain. Rates are typically lower because competition between insurers is greater, and they tend to adopt more lenient underwriting standards to secure prospective customers and retain existing clients. As a result, this type of market can lead to significant underwriting losses for insurance companies.
- **The London Market:** Specialty commercial insurance and reinsurance business backed by London capital, plus business controlled by, but not written by, London Market participants.
- **Total outgoing payments:** The total expenditure of an insurer in relation to any class of insurance business, comprising the cost of claims and the insurer's business expenses, including any commission paid to sales staff, brokers, or intermediaries, together with amounts set aside for reserves.
- **Underwriting:** The risk assessment and pricing conducted when insurance contracts are drawn up.
- **Underwriting ratio:** The ratio between total outgoing payments and net written premiums, expressed as a percentage.
- **Underwriting result:** The profit or loss achieved by an insurer or insurance underwriting activity, calculated as premium income minus the cost of claims and the insurer's expenses in connection with that business. It has been common for insurers to make underwriting losses since they also receive investment income, which generally offsets the underwriting loss.

All values quoted in this report are at current values unless otherwise specified.

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Key points

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Association of Insurance and Risk Managers (Airmic)

Association of British Insurers (ABI)

British Insurance Brokers' Association (BIBA)

Chartered Insurance Institute (CII)

Financial Conduct Authority (FCA)

International Underwriting Association of London (IUA)

London & International Insurance Brokers' Association (LIIBA)

##### Trade magazines

Continuity Insurance & Risk (Bimonthly)

Insurance Age (Monthly)

Insurance Times (Monthly)

Post Magazine & Insurance Week (Weekly)

The Insurance Insider (Monthly)

##### Trade exhibitions

BIBA 2018

Digital Insurance World 2018

Cyber Insurer & Broker Assembly 2018

Insurance Innovators Motor 2018

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