

**Statistical Overview of UK Insurance in 2006**

- UK insurers received £41bn in premium income for general insurance, and £153bn in premium income for life and savings business in 2006
- Payouts to policyholders on general insurance policies topped £25bn in 2006, while £69bn was paid in pension and life insurance benefits
- UK Insurers invested £1,480bn of assets on behalf of their policyholders in 2006, and received £62bn in investment income

Introduction

This Bulletin provides a brief insight into the state of the UK insurance company market¹ in 2006. The data is collated from information provided to the ABI by all its members and some non-ABI members. Further Bulletins will provide a more detailed analysis of many aspects of the long-term and general insurance markets.

General Insurance

The worldwide net written premiums of UK insurers amounted to £41.4bn in 2006, a fall of 1.6% over 2005. Premiums for UK risks fell by just 0.6% to £30.4bn. Worldwide net claims also fell, to £25.3bn from £26.6bn in 2005. Claims for UK risks fell by 2.1% over 2005 to £18.9bn. Despite an increase in the underwriting profit for UK risks to £1.5bn, the worldwide underwriting profit fell by 10.0% between 2005 and 2006 to £1.6bn. See Table 1 below.

Table 1 – Revenue Account for Worldwide Business of UK Insurers 2006

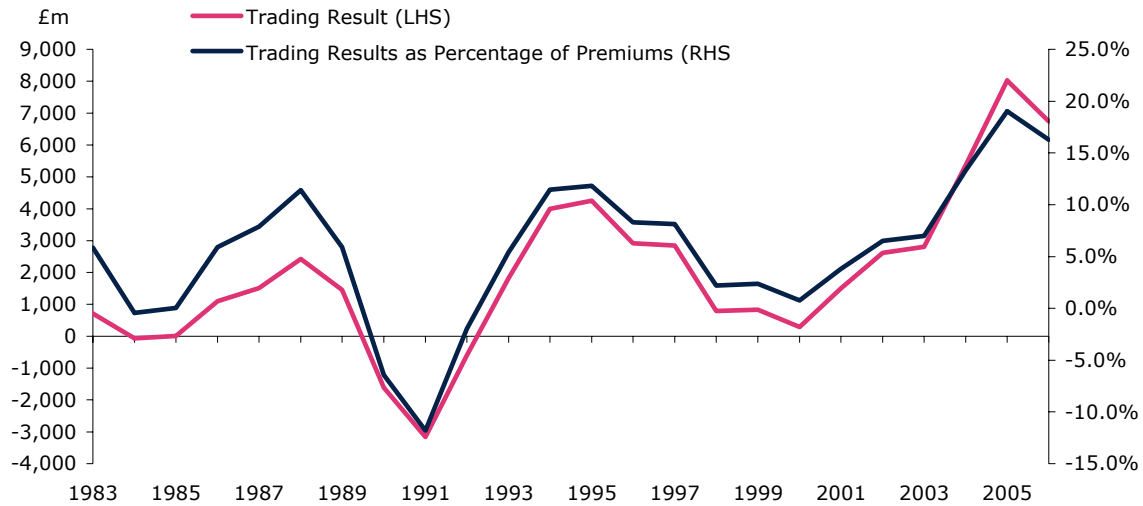
	Net Written Premium	Net Claims Incurred	Underwriting Result
UK Risks			
Motor	10,277	8,003	(197)
Property	8,487	4,562	517
Accident & Health	4,385	2,842	442
Pecuniary Loss	3,999	1,366	686
Liability	3,273	2,170	34
Total UK Risks	30,420	18,943	1,482
Home-foreign Risks	1,056	505	(6)
Overseas Risks	8,914	5,595	227
Marine, Aviation & Transport (MAT)	589	262	58
Non-MAT Reinsurance	461	23	(137)
Total Market	41,440	25,329	1,624

Notes: Home-foreign risks are those where the risk is situated overseas, but is underwritten in the UK

¹ The company market excludes any business written by Lloyd's of London

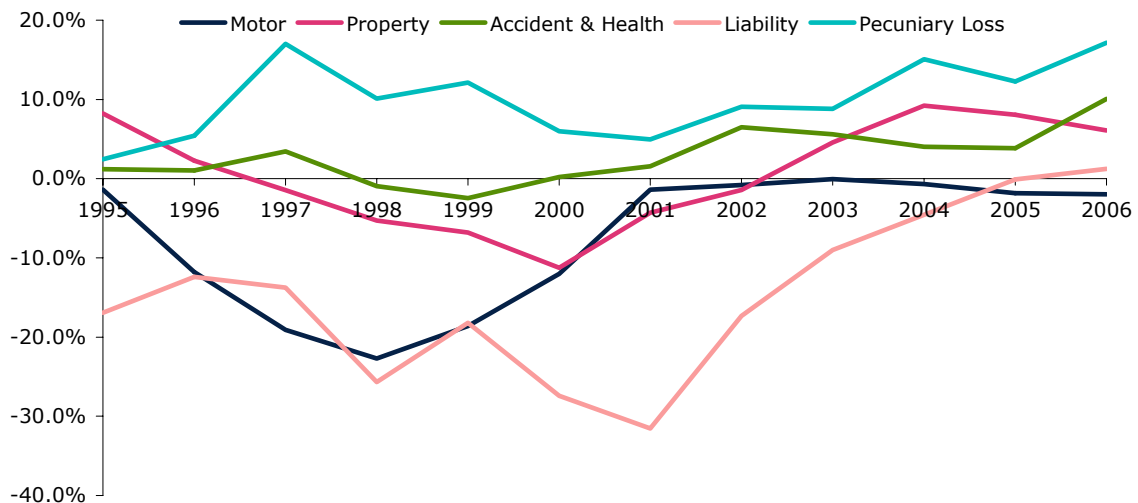
Continuing underwriting profits and another good year for investment returns ensured that the industry returned another strong trading result in 2006. The trading result of £6.7bn is a fall of 15.9% over 2005, but is the second highest result recorded, and is 16.3% of premiums – see Chart 1 below.

Chart 1 – Worldwide General Insurance Trading Result



Underwriting results for UK risks vary considerably by class of business. Chart 2 below shows the underwriting result as a percentage of net written premiums by class of business.

Chart 2 – UK Underwriting Ratios as a Percentage of Net Written Premiums

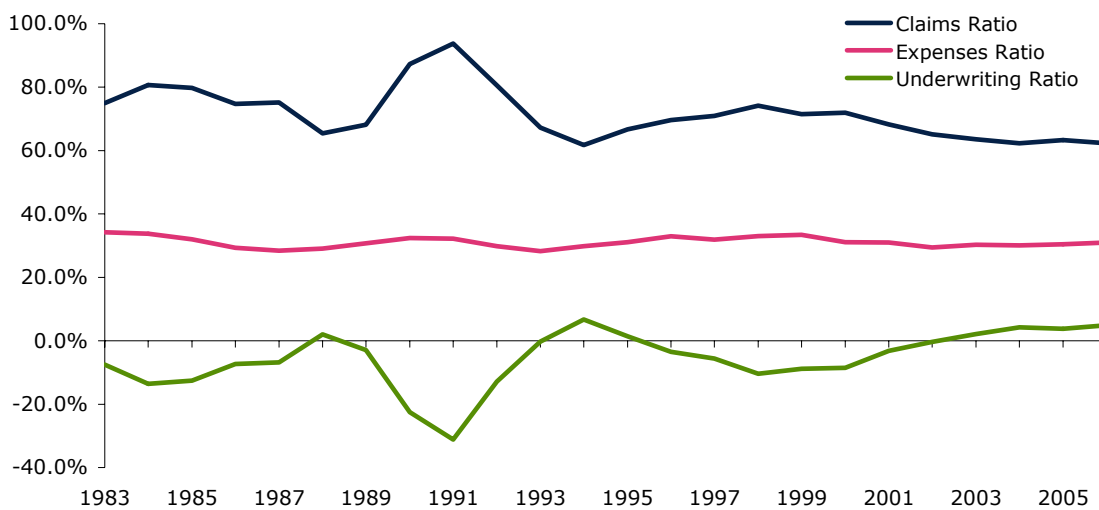


The most dramatic turnaround has been with liability insurance, where the underwriting results have improved from a loss of 31.8% of premiums in 2001 through to an underwriting profit of 1.2% of premiums in 2006, the first underwriting profit recorded

for UK Liability business. Motor insurance has made an underwriting loss for the twelfth year in succession – in 2006 the loss was 2.0% of premiums.

Overall operating ratios for the five classes of business (Motor, Property, Accident & Health, Liability and Pecuniary Loss) generally show improvements over time. In 2006 the claims ratio (the percentage of premiums which are paid out in claims) was 62.3% and expenses and commission accounted for a further 31.0% of the premiums received. Once changes in provisions are taken into consideration, the underwriting profit was 4.9% of premiums. In 1998, the last low point in the underwriting cycle, the claims ratio was 74.2%, and the expenses ratio was 33.0%. This led to an underwriting loss of 10.4% of premiums – see chart 3 below.

Chart 3 – UK Operating Ratios



Life and Pensions

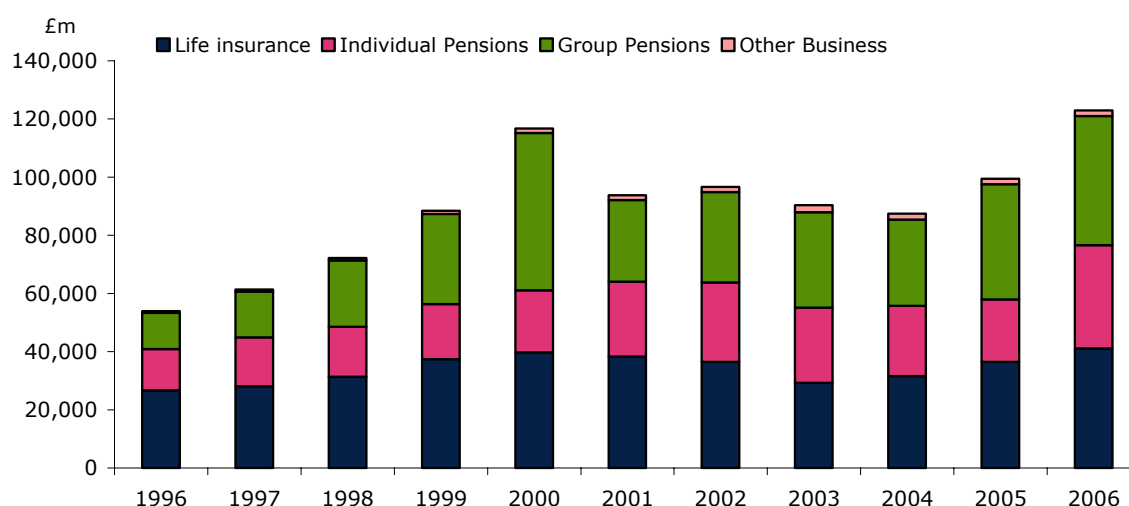
Total net worldwide premiums for life and pensions business in 2006 increased by 22.3% over 2005, to £152.6bn. Regular premiums were £33.4bn, and £118.9bn was received in single premium payments. 80.8% of this premium was written on UK contracts, and 19.2% on overseas contracts. Net benefits paid increased by 29.9% over 2005, to £158.8bn - see Table 2 below.

Table 2 – Income and Benefits Paid on Worldwide Business of UK Insurers 2006

	Net Premium Received	Net Benefits Paid
£m		
UK Business		
Life Insurance	41,168	45,469
Individual Pensions	35,462	58,061
Occupational Pensions	44,397	36,711
Income Protection & Other	1,956	1,120
Total UK Business	122,982	141,361
Overseas Business	29,326	17,487
Total Market	152,555	158,848

Chart 4 below shows the development of UK net premium income over the past decade, split by broad type of business.

Chart 4 – UK Net Written Premiums



It must be recognised that both the premiums received and benefits paid figures include the transfer of money, particularly of the pension funds of individuals or group schemes, from one pension provider to another. These pension transfers account for £72.7bn (51.6%) of the £141.4bn in total benefits paid out to policyholders in the UK in 2006. Changes in pension regulations from April 2006 contributed significantly to this movement for individual pension contracts.

Chart 5 below shows the benefits paid on UK policies by broad type of policy. The pension benefits are split between surrenders and transfers and other benefits to help illustrate how the transfer of pension funds have increased in the past 10 years.

Chart 5 – UK Net Benefits Paid

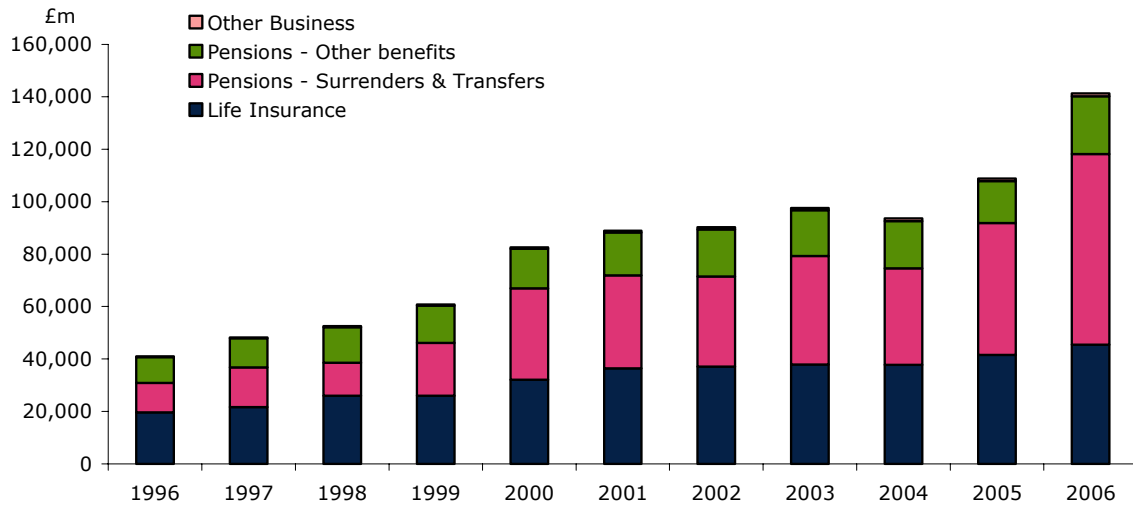
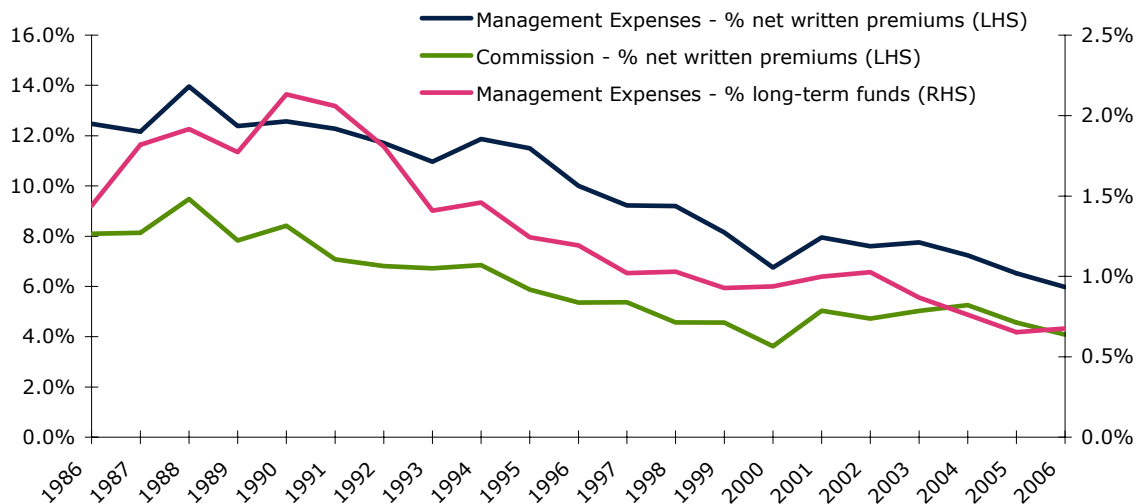


Chart 6 below shows, for UK business, management expenses and commission as a percentage of net written premiums. Although absolute values of expenses and commissions have continued to rise, they have shown a continual downward trend over the past 20 years as a percentage of premiums. Management expenses were 12.5% of premiums in 1986, but only 6.0% in 2006. Commissions were 8.1% of premiums in 1986, and just 4.1% in 2006. Expenses are also shown as a percentage of funds under management, and this too has declined, from 1.4% in 1986 to just 0.7% in 2006.

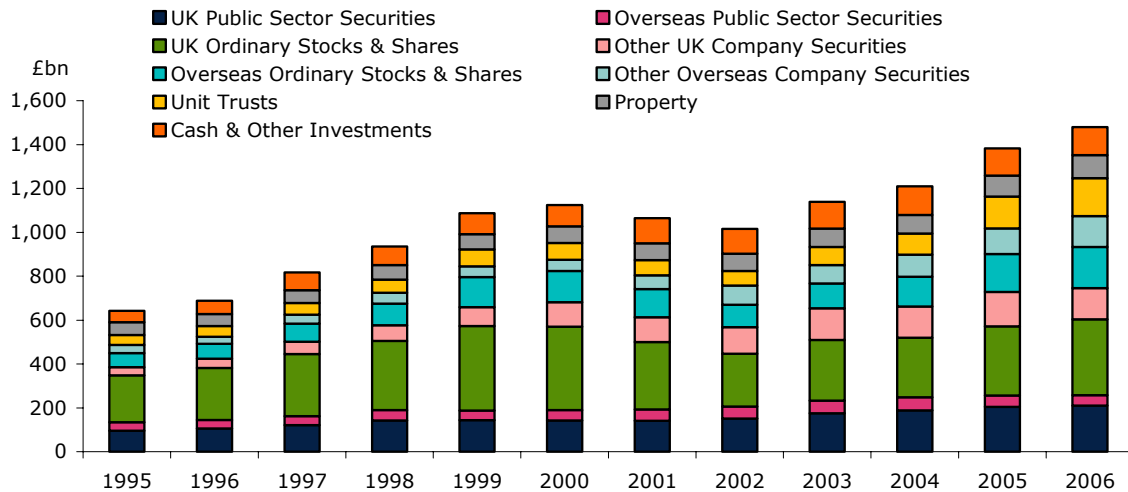
Chart 6 – Management Expenses and Commission



Investment

Worldwide total investment holdings of the industry rose by 7.1% in 2006 to £1,480bn – see Chart 7. Worldwide long-term business holdings accounted for 92.4% of the total holdings in 2006, compared to 87.4% 10 years ago, and 81.1% 10 years before that.

Chart 7 – Worldwide Investment Assets (£m)



Investment returns on these assets have fallen in 2006 over 2005, as shown in Chart 8 below. Returns of 4.6% on general business assets and 4.1% on long-term assets are well below the returns of 6.6% achieved in the peak year of 1990.

Chart 8 – Worldwide Investment Returns

