

Creditor Insurance in the UK – Key Trends and Opportunities to 2017

Market Intelligence Report

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Timetric

John Carpenter House

7 Carmelite Street

London EC4Y 0BS

United Kingdom

Tel: +44 (0)20 7936 6400

Fax: +44 (0)20 7336 6813

1 Executive Summary

Creditor insurance has a tarnished image

Creditor insurance protects policyholders against the risk of debt non-payment in the event of sickness, or unemployment. The category has been thrust into an unfavorable spotlight following widespread controversy over the selling practices of payment protection policies by retail banks, the primary distributor of the product.

Premium growth has been on a downward trend

The bank-led distribution model means that insurers constitute only a small proportion of the estimated GBP5 billion market. Gross written premiums reported in annual regulatory returns totaled GBP711 billion in 2012, and fell by 7.9% from a year earlier. Underscoring the process of consolidation in the category, premiums have fallen at a compound annual growth rate (CAGR) of -7.4% since 2008.

Customer complaints soared and banks withdrew from the market

The review period was characterized by recession and high unemployment. Despite economic uncertainty and rising job insecurity, which should have supported demand for creditor insurance, growth in the category was impaired by a combination of regulatory intervention, negative press coverage and customer resentment. In addition, lengthy investigations and a costly redress program triggered banks to withdraw from the distribution process.

Regulatory intervention spurred a modification of the products on offer

Remedial measures, which include a ban on creditor insurance policies at the point of sale of a loan or credit card, and the prohibition of single-premium payments, have reshaped the landscape for creditor insurance. The industry has shifted towards simplified products which can be sold on a standalone basis, or through price-comparison websites, in an attempt to restore the reputations of insurers, banks and creditor products themselves.

Reversing customer discontent will prove to be the largest obstacle

Throughout the investigations into payment protection insurance (PPI) selling practices, the Financial Conduct Authority (FCA), formally the Financial Services Authority (FSA) affirmed its belief that creditor insurance is inherently a functional and practical product. However, insurers in this category face many challenges in the current transition phase. Restoring consumer confidence, re-establishing links with banks castigated by regulators, and introducing unfamiliar creditor products represent significant challenges to growth.

Improving conditions mean premium growth will prevail

Despite the strong downside risks to the outlook for the creditor insurance category, a prevailing expansion will be underpinned by a recovery in the UK economy and rising awareness of, and demand for, new short-term protection products. Gross written premiums in the category are forecast to grow at a compound annual growth rate of 2.5% between 2013 and 2017, logging a total of GBP794 million by the end of this period.

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2 Introduction

2.1 What is this Report About?

This report is the result of extensive research on the creditor insurance category in the UK, covering the market dynamics, market outlook and competitive landscape. It also provides an overview of the leading companies in the category, along with details of the strategic initiatives undertaken.

2.2 Definitions

All data is collected in local currency. Conversions into US dollars (US\$) of current and forecast data are made at the 2012 average annual conversion rate. Most values are displayed to one decimal place, with the exception of compound annual growth rate (CAGR) values, which are displayed to two decimal places. As such, growth rates may appear inconsistent with absolute values due to rounding. For the purposes of this report, the review period is 2008–2012 and the forecast period is 2013–2017.

The key insurance industry terms covered in the report are defined below:

Table 1: Insurance Industry Definitions	
Term	Definition
Bancassurance	The partnership between a bank and an insurance company where the insurance company uses the bank's sales channel to sell products.
Ceding company	A primary insurer that transfers some of its insurance risk by ceding a proportion of its total written premium through a reinsurance contract.
Claims incurred	An estimate of the amount of outstanding liabilities for a policy over the year. It includes the increase in the total reserves for outstanding claims (whether reported or not).
Claim ratio	Claims payable as a percentage of premium income.
Combined operating ratio	Claims and operating expenses as a percentage of premium income. A ratio of less than 100% signifies the company is making an operating profit on underwriting operations.
Commission and expenses	The sum of acquisition cost and administrative cost. The acquisition cost is the percentage of a premium produced that is retained as compensation by insurance agents and brokers.
Earned premium	The amount of money considered to have been earned on a policy by an insurer. It is calculated by multiplying the original premium by the percentage of the policy's term which has expired without a claim being made.
Gross written premium	The total amount of premiums (before deduction of reinsurance costs) customers are required to pay for insurance policies written during the year.
Insurance density	The percentage of total written premium to the country's population.
Insurance fraud	Any act committed with the intent to obtain payment from an insurer through fraudulent means.
Insurance penetration	The percentage of total written premium to the country's GDP.
Loss ratio	The ratio of total losses paid out in the form of claims plus adjustment expenses divided by the total earned premium.
Premium ceded	The share of premiums transferred to a reinsurance company by a primary insurer.
Source: Timetric analysis	

2.3 Methodology

All Timetric insurance reports are created by following a comprehensive, four-stage methodology. This includes market study, research, analysis and quality control.

1) Market Study

A. Standardization

- Definitions are specified using recognized industry classifications. The same definition is used for every country.
- Annual average currency exchange rates are used for the latest completed year. These are then applied across both the historical and forecast data to remove exchange rate fluctuations.

B. Internal audit

- Review of in-house databases to gather existing data:
 - Historic market databases and reports
 - Company database

C. Trend monitoring

- Review of the latest insurers and industry trends

2) Research

A. Sources

- Collection of the latest market-specific data from a wide variety of industry sources:
 - Government statistics
 - Industry associations
 - Company filings
 - International organizations
 - Insurance regulatory agencies

B. Expert opinion

- Collation of opinion taken from leading insurance industry experts
- Analysis of third-party opinion and forecasts:
 - Broker reports
 - Media
 - Official government sources

C. Data consolidation and verification

- Consolidation of data and opinion to create historical datasets
- Creation of models to benchmark data across sectors and regions

3) Analysis

A. Market forecasts

- Feeding forecast data into market models:
 - Macroeconomic indicators
 - Industry-specific drivers
- Analysis of insurance industry databases to identify trends:
 - Latest insurance trends
 - Key drivers of the insurance industry

B. Report writing

- Analysis of market data
- Discussion of company and industry trends and issues
- Review of financial deals and insurance trends

4) Quality Control

A. Templates

- Detailed process manuals
- Standardized report templates and accompanying style guides
- Complex forecasting tool used to ensure forecast methodologies are consistently applied
- Quality-control checklists

B. Quality control process

- Peer review
- Senior-level QC
- Random spot checks on data integrity
- Benchmark checks across databases
- Market data cross-checked for consistency with accumulated data from:
 - Company filings
 - Government sources

3 Appendix

3.1 Methodology

Timetric's dedicated research and analysis teams consist of experienced professionals with an industry background in marketing, market research, consulting and advanced statistical expertise.

Timetric adheres to the Codes of Practice of the Market Research Society (www.mrs.org.uk) and the Society of Competitive Intelligence Professionals (www.scip.org).

All Timetric databases are continuously updated and revised.

3.2 Contact Timetric

If you have any queries about this report, or would like any further information, please contact info@timetric.com.

3.3 About Timetric

Timetric is a leading provider of online data, analysis and advisory services on key financial and industry sectors. It provides integrated information services covering risk assessments, forecasts, industry analysis, market intelligence, news and comment.

Timetric helps over 1,500 financial services institutions and their partner companies around the world benefit from better, timelier decisions.

Timetric provides:

- High-quality data including proprietary, specialized industry data, survey-based research, social media monitoring, macroeconomic data and forecasts
- Expert analysis from experienced economists and analysts, who use robust proprietary models, indices and forecasts
- Powerful proprietary visualization and workflow technologies developed over years of extensive investment

Timetric has office locations in London, New York, San Francisco, Hyderabad, Seoul, Singapore and Sydney. It employs 500 people, including 150 analysts and economists, and 200 professional researchers.

3.4 Timetric's Services

Intelligence Centers

Timetric's industry intelligence centers are premium web-based services that provide access to interactive tools, comprehensive research and expert analysis in key sectors. They provide invaluable decision support presented in an easily digestible format and grounded in deep research.

Timetric offers Intelligence Centers covering the following industries:

- Banking
- Insurance
- Wealth
- Construction
- Travel and Tourism

Briefing Services

Timetric offers a range of briefing services, which offer cutting-edge thought leadership and expert commentary on and for the financial services industries. Driven by influential and respected editorial teams with years of experience in their respective fields, these services deliver need-to-know insight and analysis to decision makers across the financial services value chain.

Timetric offers briefing services covering the following financial sectors:

- Accountancy
- Asset Finance
- Banking
- Cards and Payments
- Insurance

Consultancy

Timetric specializes in the development and delivery of innovative research solutions that are designed to provide competitive advantage and profitability to clients.

Dedicated industry analysts and economists provide expert advice and actionable recommendations underpinned by Timetric's market and country knowledge, experience and proprietary databases, panels and research infrastructure.

For projects requiring quantitative data, Timetric undertakes special research projects using its in-house panels and survey technology. These provide ready access to an extensive source of specialist business executives and consumers.

Core capabilities include:

Economic Research and Consulting

Highly experienced economists provide a number of bespoke research services covering subjects ranging from macroeconomic forecasting to sector outlooks, business presentations and workshops.

Industry Analysis and Consulting

Information analysis, independent expert opinion and advice, facilitated decision or strategic support, are provided by Timetric's extensive body of proprietary data and analysis models. It provides expertise-based consulting to deliver solutions that best suit its clients' requirements.

Quantitative Research

Timetric connects with thousands of potential customers for various markets every day. Using sophisticated, interactive and highly engaging graphical surveys, research speed is increased and costs reduced, while ensuring that respondents deliver the insight needed.

Qualitative Research

Timetric's Qualitative Research service helps customers understand the emotional and cultural behaviors of a target audience. Timetric provides unique access through market-leading publications and information services to decision makers specifically brought together to discuss topics that are important to the client.

Technology Solutions

Timetric has built a unique technological platform to collect and visualize data, and employs some of the world's leading experts on data collection and visualization. Through technology and software consulting services, Timetric can provide clients with the means to gather and visualize the data the client has, or wants to collect.

3.5 Disclaimer

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