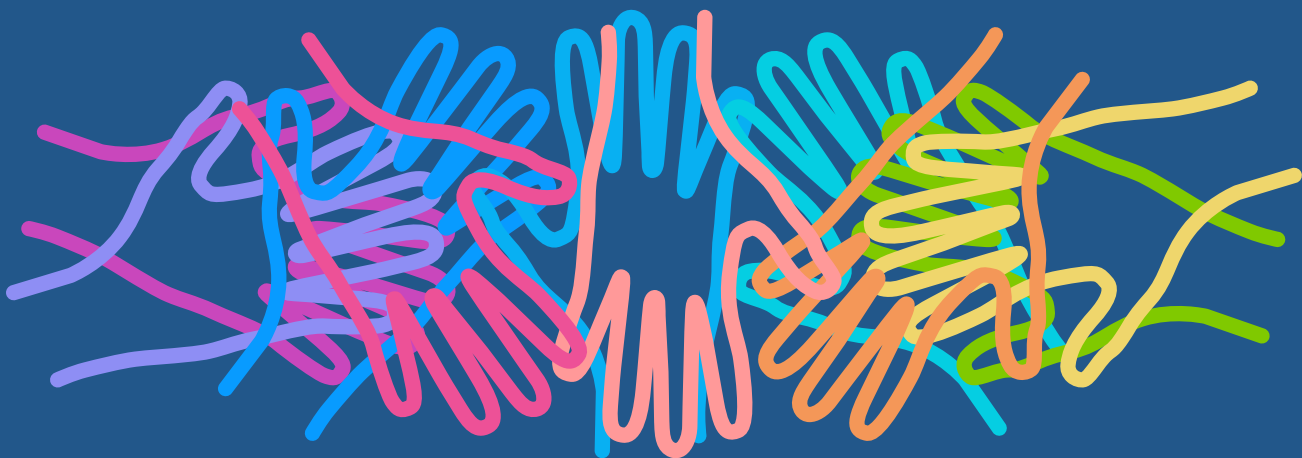


# The Legal Protection Insurance Market in Europe

October 2015



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RIAD, the International Association of Legal Protection Insurance, updates its key data on the European legal protection insurance market and this brochure summarises the most important information and provides a brief overview of the latest developments and trends.

The data covers the years 2007-to-2013. Data is extracted from the INSURANCE EUROPE statistics, EUROSTAT, and national publications of the countries' supervisors or insurance associations.

The countries included in the report are: Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovenia, Slovakia, Spain, Switzerland, Turkey and the United Kingdom. Ireland, Island, Malta, Norway, Romania and Sweden are not included due to lack of data.

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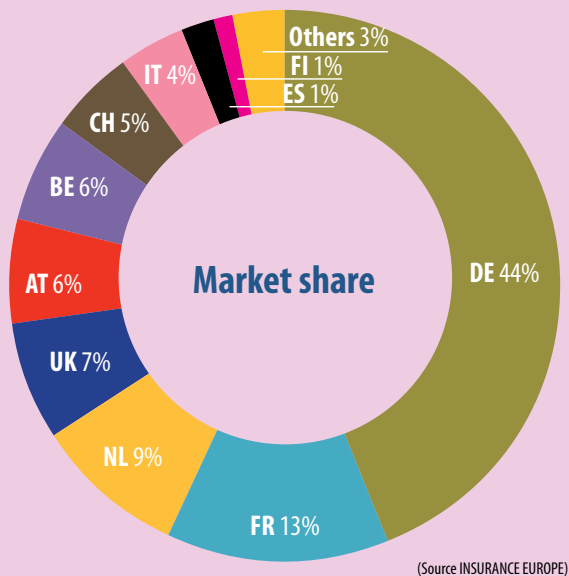


# 1 Premium Income and Market Shares

The distribution of European premium income for 2013 (€7,728m) by country confirms the predominance of the German market which accounts for 44% of the European total. This high market share relates not only to the size of the market but also to a high penetration rate of legal protection insurance in Germany where almost 50 companies provide legal protection and cover more than 20 million of contracts (collective or individual). However, this market share has been steadily decreasing over the past decade, falling from more than 55% in 2003 to less than 45% in 2013. This decline does not show a slowdown of activity but rather the high level of maturity of the German market combined with higher growth rates in other European markets.

The two biggest subsequent markets are France and the Netherlands which account for, respectively, 13% and 9% of the European legal protection market. The remaining markets account each for less than 10% market share (United Kingdom<sup>1</sup> – 7.4%, Austria – 6.3%, Belgium – 5.4% and Switzerland – 5.1%). Since 2008, the Dutch market has overtaken the United Kingdom which was previously the third biggest market. This evolution reflects the sharp slowdown in the premium income of the United Kingdom over the last few years<sup>2</sup>.

All other markets account for 5% or less of the European market. Combined, the four leading markets (Germany, France, the Netherlands and the United Kingdom) account for 74% of the European market. ■



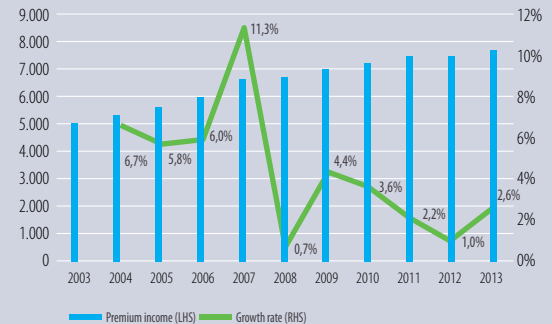
<sup>1</sup> The market share of the United Kingdom is slightly underestimated as the data does not include the Lloyds market which accounts for approximately 20% of the UK legal protection insurance market.

<sup>2</sup> As indicated further on, the slowdown observed in the UK is likely to be related to the increase of the business written offshore.

# 2 Growth Rates of Premium Income

In 2013, the legal protection insurance market amounted to €7,728m compared to €7,530m in 2012 and 7,455 in 2011. This represents a growth of 2.6% compared to only 1% in 2012. These growth rates are well below the European average of 4.3% observed over the period 2003–2013. The slowdown in the premium growth rate for the past couple of years reflects several factors: the effect of the financial crisis in 2007–2010, the general slowdown in economic activity and the low inflation rate observed since 2013.

## LPI premium income in Europe



(Insurance Europe, national Insurance Associations and Supervisors, RIAD estimates)

Developments in some individual countries also explain the slowdown of the premium growth rate. Two large markets (UK and Spain) recorded each a drop of -2.9% in premium income in 2013. The drop observed in the UK since several years does not seem to reflect a decrease in the market size of this country but rather an increase of the business which is written offshore in Guernsey, Gibraltar or in Continental Europe.

# 4 Penetration Rate of Legal Protection Insurance

The ratio of legal protection insurance premium income to GDP (at market prices) is an indicator of the relative importance of the legal protection branch to GDP but is an indicator of the relative importance of the legal protection branch to GDP but is an indicator of the relative importance of the legal protection branch to GDP. It represented 0.058% of GDP compared to 0.059% in 2009 which is the highest level observed. 2009 does not reflect a strong increase in legal protection insurance premiums but rather a decrease in GDP (at market prices) decreased by 5.4% in 2009). However, between 2009 and 2013, the ratio decreased to 0.057% of GDP, explaining the slight drop in the ratio. In 2013, the observed decrease of the ratio was 0.001% of GDP (<1%) and a rebound in premium income growth (+2.6%).

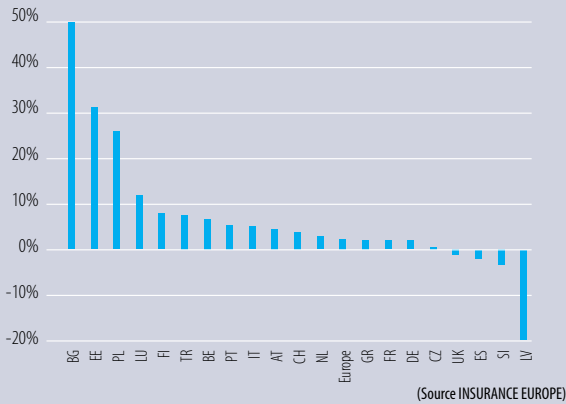
The data per country show very different levels of legal protection insurance development, specifically in Austria, Germany, the Netherlands, Belgium, Luxembourg, Croatia, Bulgaria, Estonia, Hungary, and Turkey). Very low levels are also observed in...

<sup>3</sup> It should be underlined that the freedom for companies to sell insurance services across national markets. As the business written off in a country A might be written on in country B, the evolutions of the legal protection business are not always easy to analyse and...

Therefore, at the aggregate level it is likely that the drop recorded in the UK is partly compensated by some rise in other EU countries. However, a part of the slowdown observed in the UK might also partly be related to the austerity program of the British government which started in 2011. In the case of Spain, the serious economic recession associated to the burst of the property bubble and its impact on the banking system, and more generally on the financial system, is certainly one of the key factors explaining the recess of premium income in the recent past.

These decreases are partly compensated by stronger increases observed in countries where legal protection insurance is not yet as mature as in the more advanced countries, in particular, in Eastern Europe where, for instance, Bulgaria, Estonia and Poland all show growth rates above 20% in 2013. However, their starting points are very low compared to West European countries. ■

### Growth rate of LPI premium income per country 2013

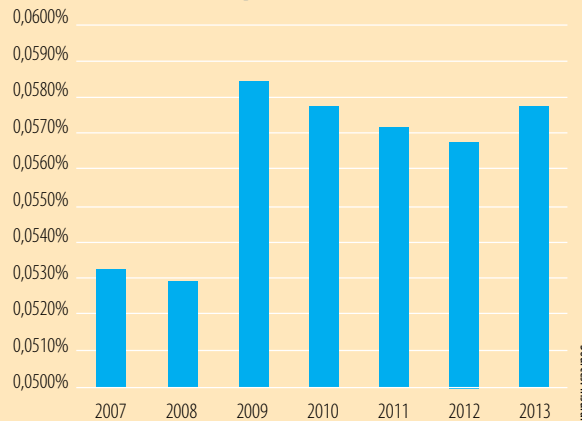


## 3 Share of Legal Protection Insurance in Non-Life Premium Income

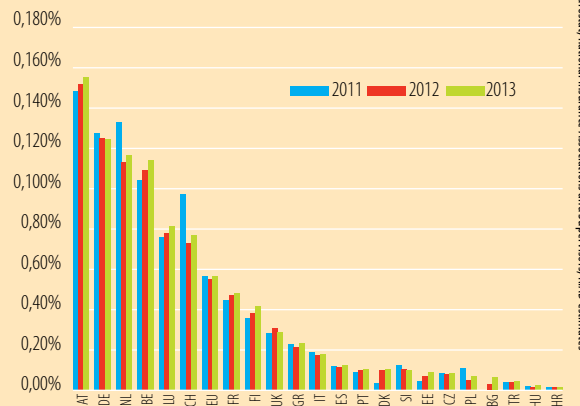
Legal protection insurance represents only a small fraction of the total non-life insurance market, accounting for less than 2% of the total non-life insurance premium income and has varied between 1.5% and 1.8% during the period 2002-2013. Between 2002 and 2010, this share constantly increased, reaching its highest level in 2010 at 1.78%. However, under the impact of the financial crisis, the ratio slightly decreased to 1.76% in 2011 and 1.74% in 2012, reflecting a higher growth rate in the total non-life market (3%) than in the legal protection market. Such evolution illustrates a certain level of sensitivity of the legal protection insurance market to the general economic activity.

However, in 2013, the total non-life premium market recorded a zero growth rate of its premium income while, at the same time, the legal protection market recorded a 2.6% increase. As

### Ratio LEI premium to GDP



### Penetration rate per country: LEI premium to GDP



Sources: Insurance Europe, Eurostat, national Insurance Associations and Supervisors, RIAU estimates

## Insurance<sup>3</sup>

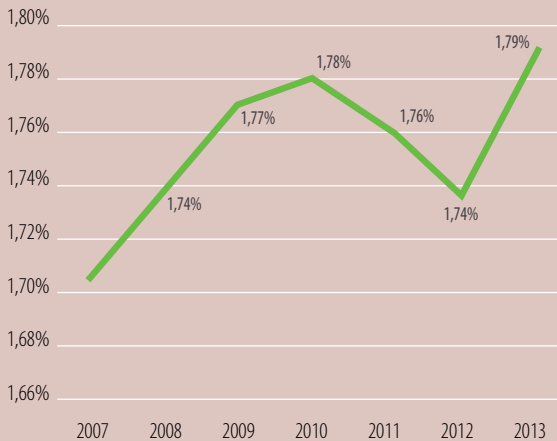
), also known as the penetration rate, does not represent the contribution of legal protection insurance. On average, in 2013, legal protection premiums recorded over the last ten years. The strong increase in the ratio observed in 2013 is rather an indicator of the economic recession observed in Europe (the EU 27 in 2012, the EU GDP grew at a faster rate than legal protection premium income). In 2013, the ratio of legal protection premiums to GDP reversed for the first time due to a very weak growth rate of

development in Europe. The highest penetration rates are recorded in the most advanced countries such as Luxembourg and Switzerland. Lower levels are mainly found in Eastern Europe and in some of the more developed markets such as Denmark, Malta or Iceland. ■

Statistics across the border in Europe does not always allow a perfect comparison of the data recorded in the accounts of a company that report in a country B, national interpretation.

as a consequence, the share of legal protection insurance in non-life premium income jumped from 1.74% in 2012 to a high of 1.79% (i.e. above the record of 1.78% in 2010). ■

### Share of LPI premium income in non-life premium income in the EU



## 5 Legal Protection Insurance and Service Provision

Legal protection insurance does not only give the policyholder the possibility of being reimbursed for lawyer fees and other costs related to litigations but insurers have broadened their service offerings by extending their activities to related services such as the provision of legal advice by lawyers employed by the insurance company or by external lawyers. The legal protection insurer may also support the client with out-of-court settlements or directly represent the policyholder in courts or administrative proceedings. However, since all these external services are strictly regulated by national law the range of services provided by insurers in the different countries varies substantially. Generally, legal advice and the settlement of claims out-of-court can be provided without legal restriction while in most countries the representation of the policyholder in courts and/or administrative proceeding is forbidden or submitted to legal restrictions which vary from country-to-country. Restrictions are strongest in Germany where legal protection insurers are only allowed to pay claims and are not entitled to give any legal advice, settle claims out-of-court, or represent clients in court or administrative proceedings. The provision of legal advice by insurers is also forbidden in Poland. ■

## 6 Legal Protection Insurance in the current Economic Situation

The macro-financial situation has positively evolved since the outbreak of the financial crisis in 2008-2010. The recapitalisation of the financial systems imposed by supervisors on banks and, to a lesser extent, on insurers, as well as the deleveraging of the banking system and the cleaning of the asset portfolios, are some of the numerous measures taken by the financial sector to restore its financial health and confidence of investors. However, despite the massive asset purchase program launched by the ECB, the economic recovery is not yet fully achieved and growths in GDP are still far from their historical average of the last decades. Such a slow economic development weighs on the development of legal protection insurers who are for a significant part of their premium income (i.e. the business part) dependent on the economic activity.

Another significant factor which strains legal protection insurers is the prevailing low-yield environment. The current situation impacts first and foremost life insurers but legal protection insurance does not remain unaffected by this environment since it is a long-tail business where provisions made by insurers to pay future claims to policyholders are invested in the markets (mainly bonds) and contribute to the financing of the activity and to lower premiums of legal protection contracts. As a consequence of this change in the market situation, legal protection insurers focus increasingly on pricing in order to reduce their dependence on investment returns. The low interest rate environment is also inducing some insurers to change their portfolio allocation so as to maintain returns, remain competitive and provide policyholders with affordable premiums.

In a context of weak economic growth, pressure between non-life insurers, and among them legal protection insurers, arises mainly from retail business to compete for a relatively stable market. Such an intense competition is likely to weigh on profitability. Aggressive pricing and uncontrolled growth are factors that can endanger the continuity of the provision of some insurance coverage by driving competitors out of business and diminishing the natural substitutability across the different providers of insurance cover<sup>4</sup>.

In January 2016, the implementation of the new capital requirement rules of Solvency II for all European insurers will constitute a significant change in the supervision of legal protection insurance. These rules will contribute to a more uniform European insurance market by ensuring that policyholders throughout the EU enjoy the same level of protection, no matter where they buy insurance. However, several issues still need to be tackled such as volatility in the balance sheet, treatment of long term investments (such as infrastructure and securitisations), exacerbated increase in capital, . . . In addition to these identified issues, the first months and years of experience with Solvency II will certainly allow to highlight other issues that will require further refinement and improvement. Legal protection insurers have worked hard and continue to do so to prepare for the new solvency regime. ■

<sup>4</sup> ECB Financial Stability Review May 2015



INTERNATIONAL ASSOCIATION OF LEGAL PROTECTION INSURANCE  
INTERNATIONALE VEREINIGUNG DER RECHTSSCHUTZ-VERSICHERUNG  
ASSOCIATION INTERNATIONALE DE L'ASSURANCE DE PROTECTION JURIDIQUE

Rue de l'Industrie 4  
B-1000 Brussels  
Tel. +32 (0)2 732 36 28  
Email: [secretariat@riad-online.eu](mailto:secretariat@riad-online.eu)  
[www.riad-online.eu](http://www.riad-online.eu)