EU Targets Insurance Industry Antitrust Problems

by dow-jones

BRUSSELS -(Dow Jones)- The European Commission Tuesday targeted two major antitrust problems in the continent's insurance industry, saying the long-standing practice of aligning premiums for large risk contracts led to unnecessary higher prices and uncovering what it said were unhealthy conflicts of interest by insurance brokers.

Industry will now have to justify these practices or reform them, the commission said.

"The commission is serious about making markets work better, even where that means we need to question some established market practices," said E.U. Competition Commissioner Neelie Kroes. Industry needs "to reform relevant business practices."

Europe's insurance industry is allowed to cooperate on some pricing practices, under a European antitrust exemption in 2003.

In 2004, the U.S. New York Attorney General Eliot Spitzer investigated conflicts of interests between insurers and brokers, forcing powerhouse American International Group (AIG) to give up more than $800 million a year in revenue from so-called contingent commissions from insurers.

Another insurance broker Marsh & McLennan (MMC), settled an insurance bid-rigging inquiry for $850 million.

The commission first opened a probe into competition in insurance in June 2005. At the time, antitrust commissioner Kroes said high premiums and fees might be hurting small business.

Tuesday's long awaited "final" report found evidence to back up these claims.

Like Spitzer, officials expressed concern that insurance brokers faced a conflict of interest where brokers act both as an adviser to their clients, to the insured and also as a distribution channel for the insurer. A related problem was the prohibition among insurers from rebating commissions.

In response, the commission said it would review its so-called Insurance Mediation Directive.

In addition, the commission expressed concern about the practice of insurers, particularly reinsurers, aligning their premiums and excluding others from offering lower premiums than those offered by the lead insurer.

While the report says the practice may not break E.U. law, the commission said insurers should move fast to justify the practice or reform it.

Some elements of the report were positive for business.The commission said most of its concerns about long-term insurance contracts had been resolved. Its only concern about this remains in Austria.

The commission's initial finding questioned the extent of the industry's antitrust exemption. This allows firms to cooperate on setting risk premium calculations and drawing up standard policy conditions, among other issues.

The commission said it remained unsure whether the exemption "is still necessary." But it held off judgment until a new report is published in March 2009.

By William Echikson, Dow Jones Newswires