Abstract

A well-performing life insurance industry benefits consumers, producers and insurance firm stockholders alike. Unfavourable market conditions stress the need for life insurers to perform well in order to remain solvent. Using a unique supervisory data set, this paper investigates competition and efficiency in the Dutch life insurance market by estimating unused scale economies and measuring efficiency-market share dynamics during 1995-2010. Large unused scale economies exist for small and medium-sized life insurers, indicating that further consolidation would reduce costs. Over time average scale economies decrease but substantial differences between small and large insurers remain. A direct measure of competition confirms that competitive pressures are at a lower level than in other markets. We do not observe any impact of increased competition from banks, the so-called investment policy crisis or the credit crisis, apart from lower returns in 2008. Investigation of product submarkets reveals that competition is higher on the collective policy market, while the opposite is true for the unit-linked market, where the role of intermediary agents is largest.