

Abstract

This paper investigates the cost efficiency and competitive behaviour of the non-life – or property and casualty – insurance market in the Netherlands over the period 1995-2012. We focus on the 2006 health care reform, where public health care insurance has been included in the non-life insurance sector. We start with estimating unused scale economies and find that after the health care reform in 2006, unused scale economies are, at 21%, much higher than before the reform (4%), pointing to a relative increase of fixed costs. Scale inefficiencies are generally higher for smaller insurance and lower for large insurance companies. As a benchmark, we also estimate scale economies for non-health lines of business (LOB), which range from 5% to 10%. To measure competition directly, we apply a novel approach that estimates the impact of marginal costs as indicator of inefficiency on either market shares or profits. Over time, competition in health insurance has increased significantly, but the inclusion of the (non-competitive) public health care funds in the health insurance sector in 2006 caused a fall in the average level of competitive pressure. After the reform, competition continued to improve. In the non-health LOB non-life insurance, we find similar significant effects of efficiency on both market shares. The non-life effects are weaker than in life insurance, banking and non-financial sectors, suggesting less heavy competition.