Insurance broking fundamentals

I10: 2024 edition

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Please note the following update to your copy of the **I10** study text:

Chapter 2, section D3, page 2/21

Paragraph two should now read (amendments in **bold**):

The capacity of any insurer and indeed, the insurance market in general, fluctuates over time. **When insurance offers a better return than other investment opportunities, investors will invest their capital in the insurance market. This gives insurers the opportunity to underwrite more risks.** When there is high capacity, caused by the capital markets investing in insurance, insurers may relax their underwriting terms to take on more risk. This results in an increase in claims. The higher frequency of claims and higher claims costs, coupled with lower premiums, drives capital out of the market. This is known as a ***'soft market'***. **When claims frequency increases, insurer profitability reduces and, potentially, the return on capital is lower than alternative investment opportunities. As such, investors will invest less than they may have done when the market is soft.**