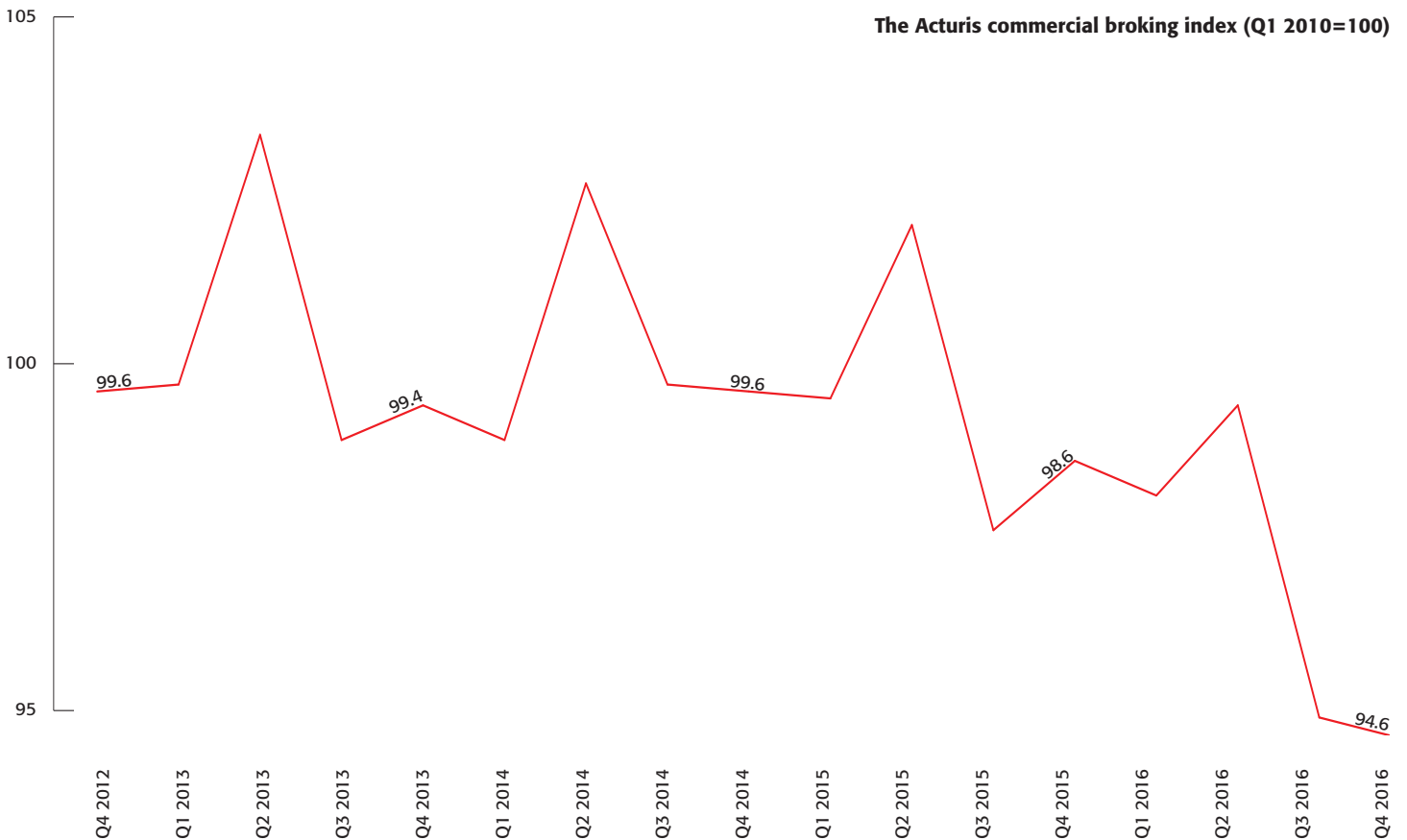


## THE STATS – THE ACTURIS PREMIUM INDEX

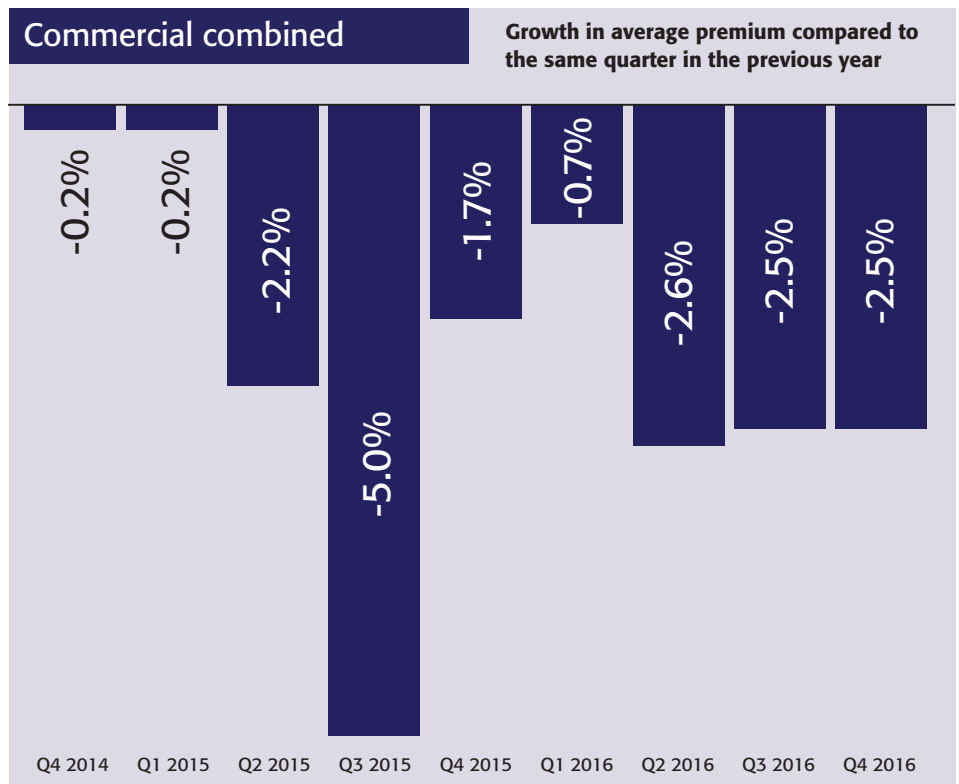


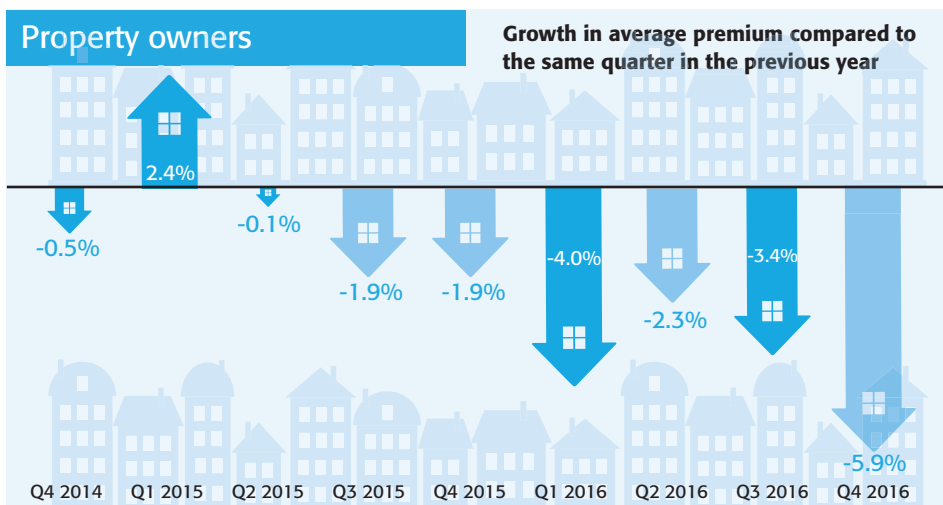
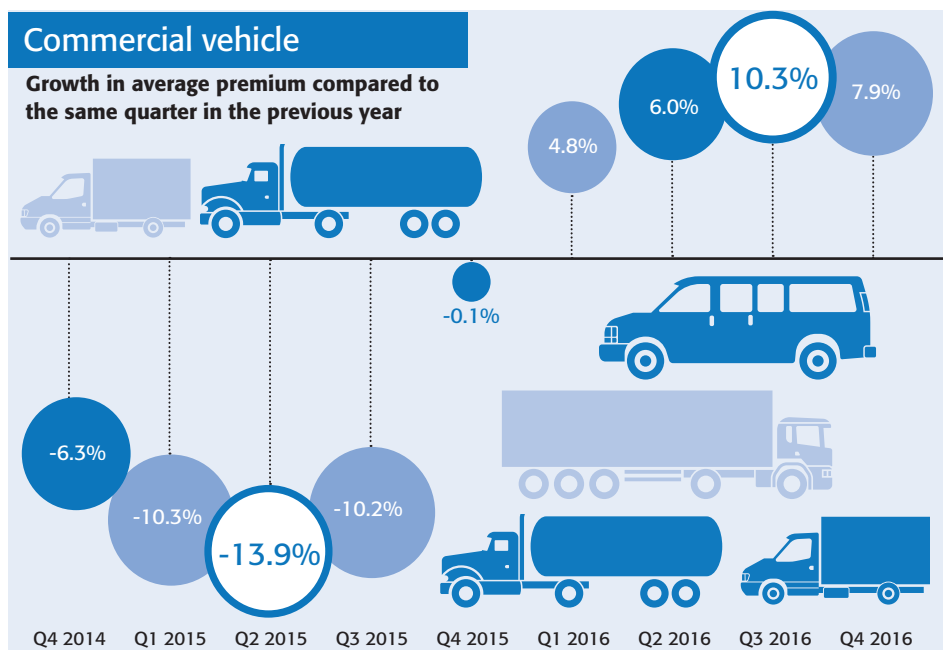
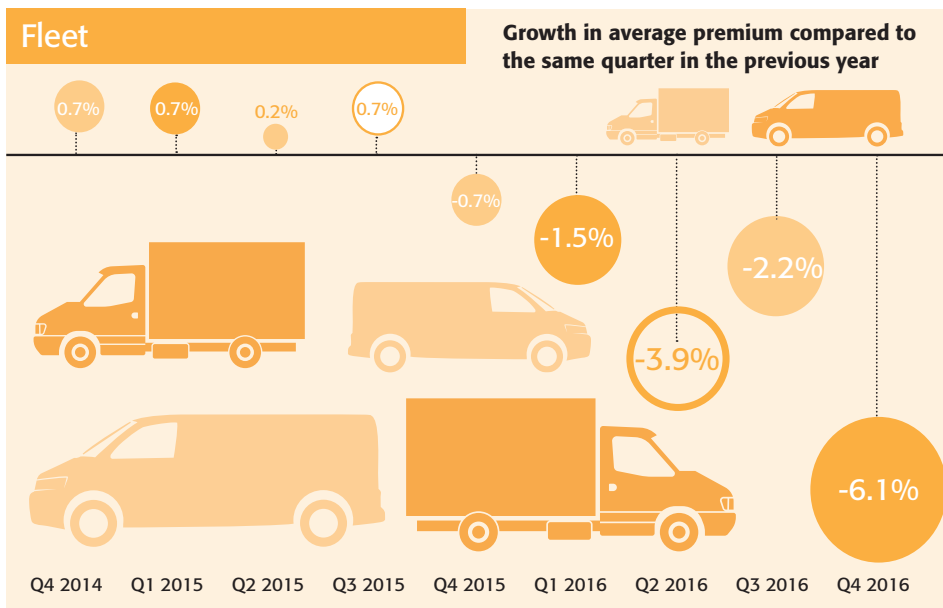
● The end of 2016 was a near horror story for brokers. The Acturis Premium Index provides eight measures and seven were down on the quarter. In among these the commercial broking index (see graph above), which measures average premium movements across key lines in a typical broker's book of business, was down 4% for the fourth quarter when compared to the same period last year. It was the biggest drop ever measured by the software provider. In addition to this unwelcome record the figures – set with a baseline of 100 in Q1 2010 – showed it had reached an all-time low of 94.6.

Overall, fleet and property owners were the biggest fallers with commercial vehicle the only positive mover.

The downward pressure on pricing was due to a combination of two factors, according to Clear Commercial's broking director Andrew Moses.

In his view insurance, particularly in the UK market, was still seen as "a safe bet" for international investors to pump money into because of the "unstable economic times that [other businesses] operate" in. >





“The knock-off effect is there is more capacity and more competition that would drive down the rate,” he said.

On the second reason, he noted that when it came to market share, insurers were “hell-bent on keeping what they’ve got”.

Moses added: “Put those two factors together and it’s not particularly surprising that you’re seeing downward pressure on pricing.”

Movements in premium can be driven by changes in the size of risks and the level of insurance rate. Data from Acturis incorporates both factors (see box below).

And QBE’s head of commercial SME Dave Greaves, despite not being surprised by the slumping numbers, admitted that the percentages showed “a sharper decline than I have seen or would be expecting”.

Analysing Q4 2016 with Q4 2015 compares like-for-like risks rather than movement between consecutive quarters. So let’s look at the classes of business individually.

Commercial combined saw yet another fall in average premium – of 2.5% in Q4 2016 – giving it a clean sweep of declines in every quarter of the year.

Moses noted that prices were being driven down because it was the “one that everyone wants,” adding: “It is not a specialism because everyone does it, everyone is competing for that.”

The biggest faller, however, was fleet. It dropped 6.1% for the last three months of the year. Similar to commercial combined, each quarter saw a negative movement.

“We have seen fleet prices become more competitive [because of the] excess capacity in the market,” confirmed Mark Thomson, head of insurance at Vanarama. >

### Explaining the figures

The Acturis commercial broking index consists of quarterly figures calculated on a base line of the first quarter of 2010. It has been designed to represent premium movements in a typical broker’s book of commercial business. This index uses weighted figures from commercial combined (35%), fleet (25%), property owners (18%), packages (12%) and combined liability (10%) indices based on the portion of GWP each class of business represents in a typical commercial book.

The further indices in the Acturis Premium Index covered in the text show year-on-year comparisons measured across £5bn of premium. The movements in premium can be driven by changes in the size of the risk and the level of the insurance rate. By comparing each quarter with the same period the year before it is most likely to set the pricing of similar risks against each other.

The one big riser for the three months was commercial vehicle, climbing 7.9% set against the same period a year ago.

On commercial vehicle, Thomson was expecting its baseline rate to be 106 to 108, not 122.6, while Mark Bennett, chief executive officer at Bennett Christmas, noted that the business line had been “driven so low [in 2015] to the extent that it has had to go back up to break even”.

Apart from fleet being one of the big fallers, property owners was another line that saw a continued depression in average premiums in the quarter to 5.9%.

“Property owners has [previously] been quite static, it’s surprising,” noted Alex Jewett, company director at Blackrock Insurance.

“I thought that would be one that would go up... [due to] all the flooding claims.”

Agreeing that in his experience property owners had been stagnating, Moses said the lack of uplift was because the industry hadn’t had a “real major” event that has dented prices.

But Bennett suggested that the average premium was at its new level because “more data of flood rates and risks” existed.

Turning to combined liability, tradesman and packages, these classes fell by 1.6%, 0.4% and 3.9% respectively.

Bennett said liability and tradesman were where he “expected it to be”.

On tradesman, Thomson said: “A basic premium is £70-£150 per policy and there is not a lot of margin there. If it’s falling there’s just nothing in it.”

He continued: “We’ll wait two quarters and see what happens with the premiums.”

Moses gave his view on packages, noting that it was the same comments for commercial combined. It’s a line “that everyone wants,” he added.

Bennett said, however, that the fault was with the “media and initiatives encouraging individuals to shop around for cheaper cover”.

“The personal lines arena is having an effect on the buying decisions for the package commercial services sector,” he argued.

Finally, looking at the general state of the market, Greaves suggested that the increase in Insurance Premium Tax (IPT) from 9.5% to 10% was leading to some of the medium and larger customers starting to self-insure, noting that this was having an effect on commercial combined and fleet particularly.

“Insurance plus the impact of IPT on top is driving the risk of exposure out of the industry,” he said.

As such, Greaves observed that Q4 “tended to buck the trend for the year”, while the overall sentiment across the experts was that 2017 would not start off with a bang. ■

