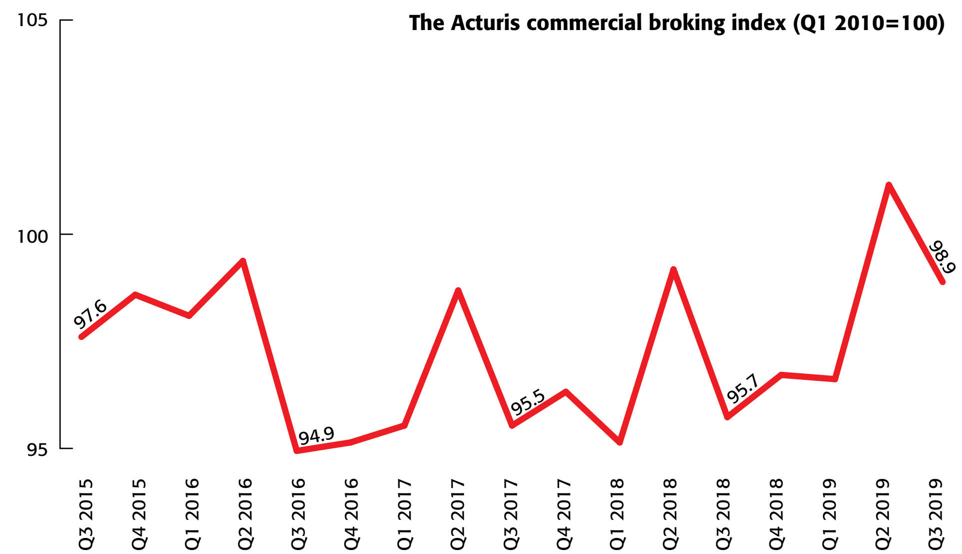
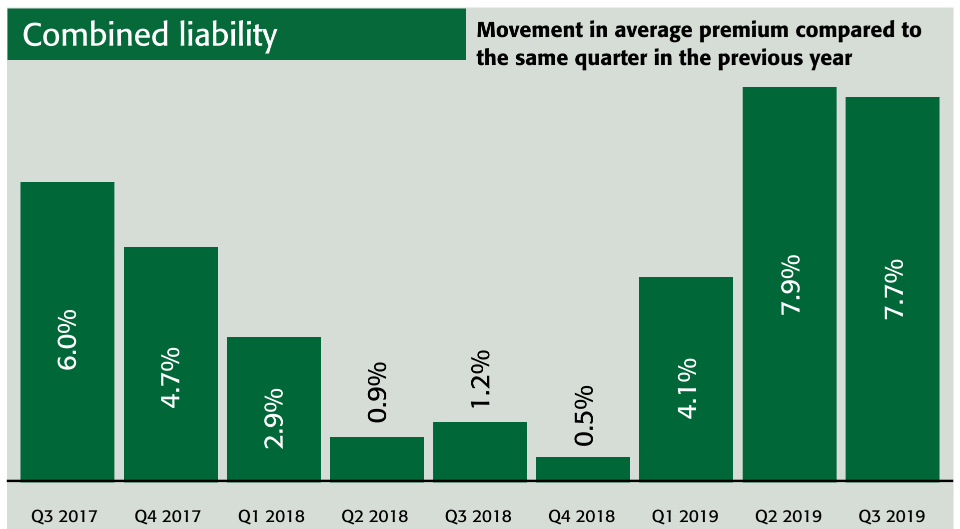
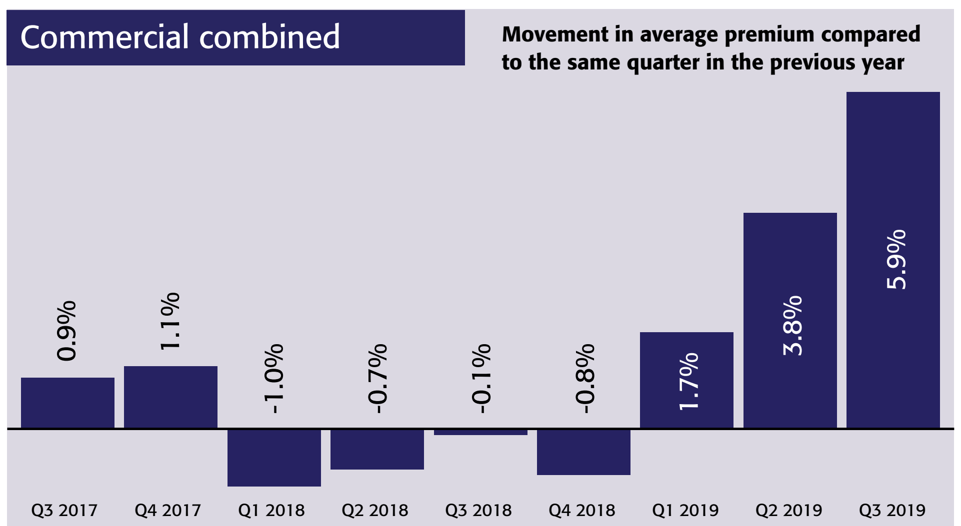
THE STATS – THE ACTURIS PREMIUM INDEX







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The third quarter of 2019 brought year-on-year premium growth in all classes of commercial business but one, according to the latest set of data provided by Acturis.

A third consecutive quarter of significant premium growth was reported in commercial liability, with 7.7% year-on-year growth posted for Q3 2019. This followed figures of 4.1% and 7.9% for the first two quarters of the year respectively.

"For combined liability to be up 7.7% year-on-year is a pretty meaningful number," Peter Blanc, group CEO at Aston Lark, told *Insurance Age*. "We think that part of the reason is a reduction in the number of carriers. That's enabling those remaining in the market to harden their starts and get away with it."

Edward Finch, managing director at MRIB, suggested that a change in the Ogden rate was partially responsible.

"Liability is long-tail and so the increase makes sense," he commented.

The discount rate, which is used to calculate lump sum compensation for accident claimants, was adjusted from -0.75% to -0.25% during the summer. The move sparked the ire of many insurers, who claimed that the government had previously indicated a new rate between zero and 1% and that they had reserved accordingly.

The price tag of the most recent Ogden adjustment on the insurance industry has been estimated to be more than £160m.

Rates for commercial combined moved similarly, with a year-on-year increase in premiums placed at 5.9% for the third quarter of 2019. The figure marks the third consecutive quarter of upward movement in this class of business, following rates of 1.7% in Q1 2019 and 3.8% in Q2 2019.

This year has been a turning point for commercial combined. Three quarters of escalating increases in premiums have reversed the softening of the market that occurred in 2018. The market for commercial combined has not posted such significant quarterly numbers since reductions of 2.5% and 2.6% that occurred in 2016.

Robert Marshall, chairman at Trident Insurance, was surprised by the numbers for both commercial combined and combined liability, saying that they weren't reflective of pricing trends experienced at his business.

"These are the numbers that stick out as absolutely ridiculous," he said. "I don't know whether people think they've got away with increases in Q1 and have tried a little bit more in Q2 and Q3."

Turning to fleet, both Blanc and Finch explained the 2.6% year-on-year increase in premiums reported for Q3 2019 as due to increasing claims costs.

"While cars are getting better at preventing accidents from happening, if there is an accident, the cost of vehicle repairs has gone up," noted Finch. "The front of most vehicles now have things like parking sensors and radar detection. It's physically much more expensive to repair a car."

Blanc explained that the cost of fleet claims has also been affected by uncertainty over Brexit.

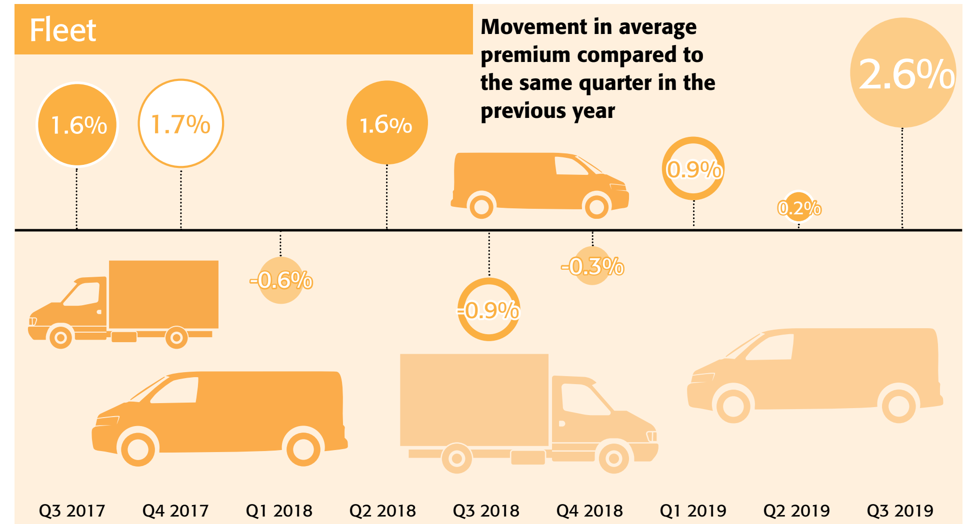
He added: "Brexit and exchange rate factors are having an impact on the cost of parts. There's also a bit of a problem with capacity in the repairer network, which is causing a squeeze on labour rates."

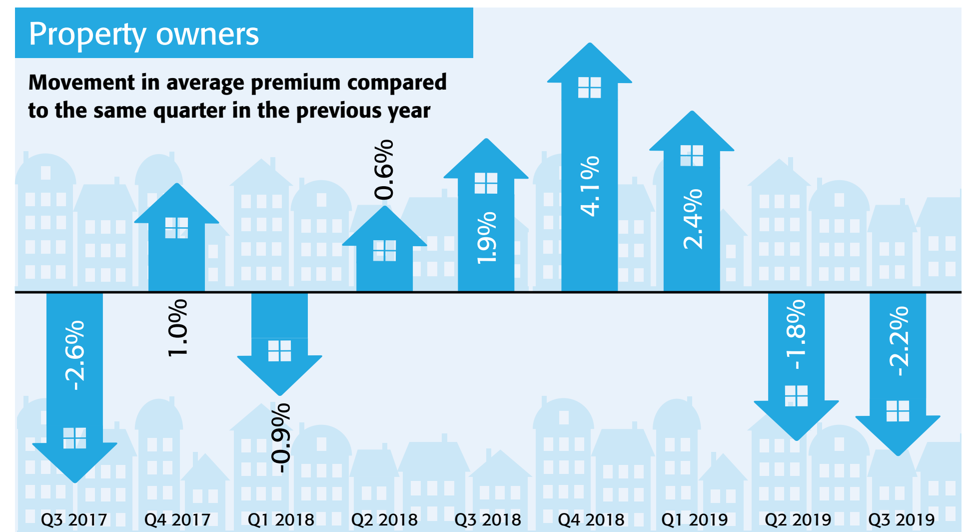
Marshall said the 2.6% figure for fleet was within the margin of acceptability for the industry.

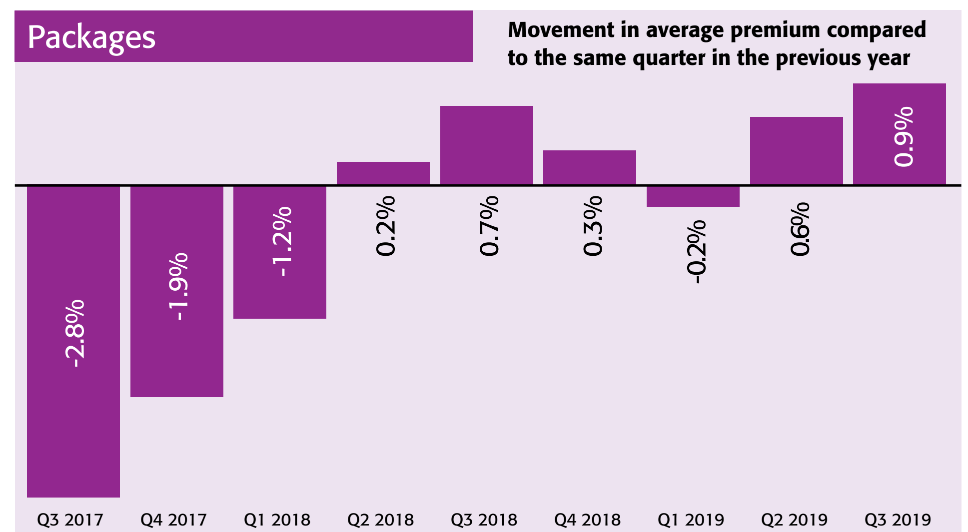
"The increase is nothing because you can absorb it. That's where firms are still prepared to absorb losses," he noted.

Fleet continues to be a sector that exhibits volatility in premiums. The year-on-year change recorded by the data frequently swings between positive and negative with each passing quarter. So far, 2019 is the first year that hasn't posted a quarter of downwards movement since Acturis began recording the data in 2010.

"It's a class of business where there's a great deal of market activity," said Blanc. "There are plenty of players, plenty of ▹

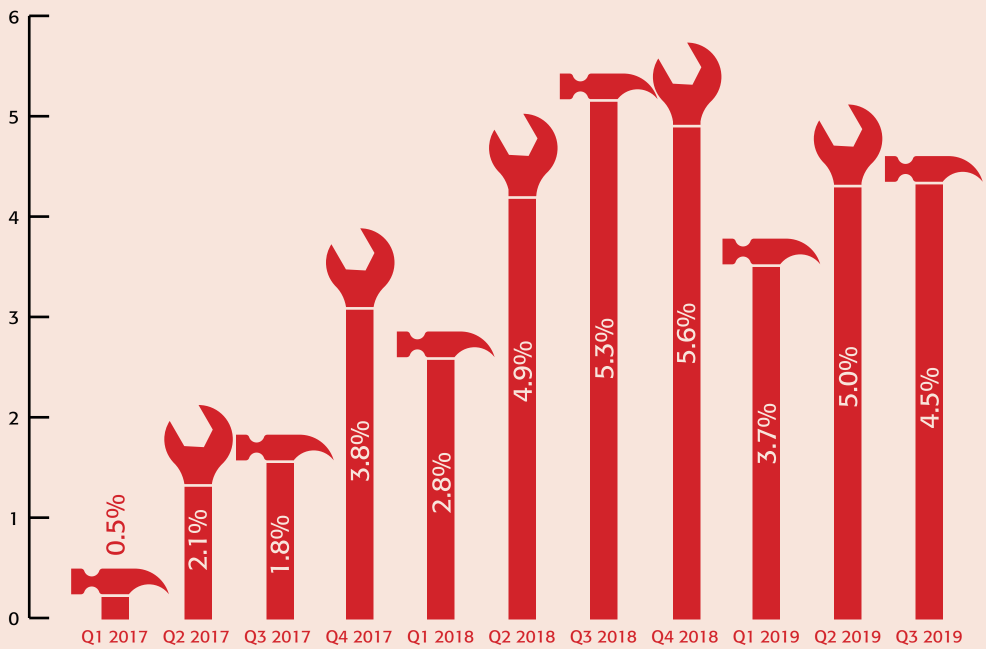






Focus on tradesman
by Acturis

Year on year comparatives by quarter (% growth in average premium)



The fortunes of the tradesman index contrast with that of the overall packages index, of which tradesman is a constituent part.

At the end of 2018, the tradesman average premium had increased 22% on the 2010 average value, whereas the overall packages index had seen a 5% decrease during that time. The rate of increase has been greatest in recent years, which is consistent with what has been observed across other Acturis indices.

Tradesman is primarily a liability-based class of business, whereas other packages (e.g. shops, offices) contain a large property element. Similar trends can be observed in the combined liability and property owners indices.

The steady growth in tradesman premiums shows no signs of slowing down in 2019 – all three quarters to date have seen increases of 3.7% or more on their 2018 counterparts.

Simon De Ferry, commercial lines product manager at Acturis, commented: "Tradesman is one of the highest volume classes of commercial business on the system, both in terms of number of policies, and number of e-trade transactions.

"In general, a higher e-trade penetration rate over time would result in less pronounced increases in premium due to the efficiencies created for broker and insurers. However, over the past few years, we are seeing business placed in this particular product class cover a wider risk footprint, and/or with more coverage.

"For example, the proportion of policies as simple one-man-band sole traders has decreased over the past five years from 73% to only 64% of policies. The proportion of risks comprising limited companies has increased correspondingly and, alongside this, the percentage of policies with one or more additional employees has trebled. This increase in size of business being insured within this product class will naturally feed into the consistent growth in average premium".

markets, plenty of opportunities and, because of that, there's plenty of coming and going."

Elsewhere, the data for property owners illustrated a second consecutive quarter of negative year-on-year movement in premiums. A change of -2.2% was reported by Acturis for Q3 2019, following -1.8% in the previous quarter.

Marshall suggested that commoditisation had contributed to falling premiums in the sector.

"Everybody is offering property owners – it's not surprising that it's going nowhere. It's a bit like the frozen foods counter," he commented.

Alternatively, Blanc proposed that composite insurers may have been attempting to offset increases in other classes of business with more favourable terms in the property owners sector.

"We often see when they're trying to carry rate on one of the higher risk classes, like combined liability or fleet, they try to soften the blow to clients by offering a small sweetener on the property side," he observed. "But property is also a profitable class of business traditionally and underwriters do chase that business."

It was a possible explanation for the quarter's figures that was shared by Finch, who was "struggling to see why the data was going up in every category but property owners".

He continued: "While insurers want to increase rate, they also want to increase overall premium full stop. If they did it all in just one line, it would be really easy for a broker to choose to place that business with another insurer. They're spreading it across the lines."

Regardless of the drivers behind the recent year-on-year declines in premiums, the good times aren't expected to continue. Both Blanc and Finch expect the market for property owners to harden due to the recent spate of heavy flooding in parts of the UK.

Marshall, however, was less certain: "I think that's wishful thinking because a lot of properties won't be covered anyway". ■

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 £7.3bn 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.