Commercial premiums – double trouble as rates continue to bite

Along with the cost of living, the cost of insurance looks set to keep rising too, according to the most recent Acturis Commercial Broking Index. **Rachel Gordon** reports

Looking at year-on-year comparatives for Q4, the Acturis index shows a 1.9% rise in average premium, from 1.9% in 2020 to 3.8% in 2021, so effectively a doubling.

Notably, the first two quarters of 2021 saw relatively small rises but this gathered pace and both Q3 and Q4 premiums were close to 4% higher than the same quarters in 2020.

Overall, the index experienced its third consecutive year of growth in 2021, with premiums going up 2.5% since 2020. It is now at its highest value since inception in 2010, with premiums in 2021 up to 104.1% of their 2010 value.

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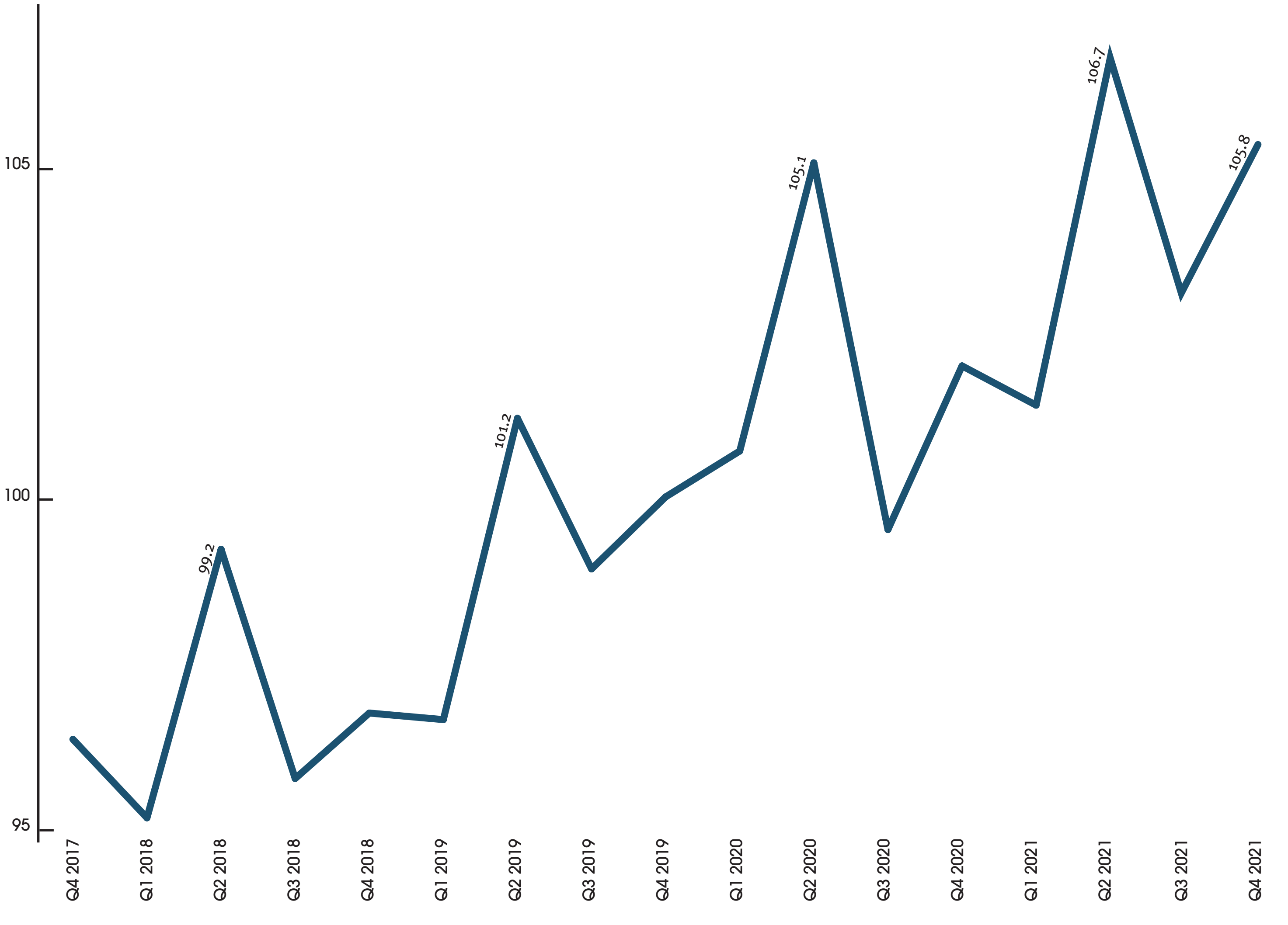
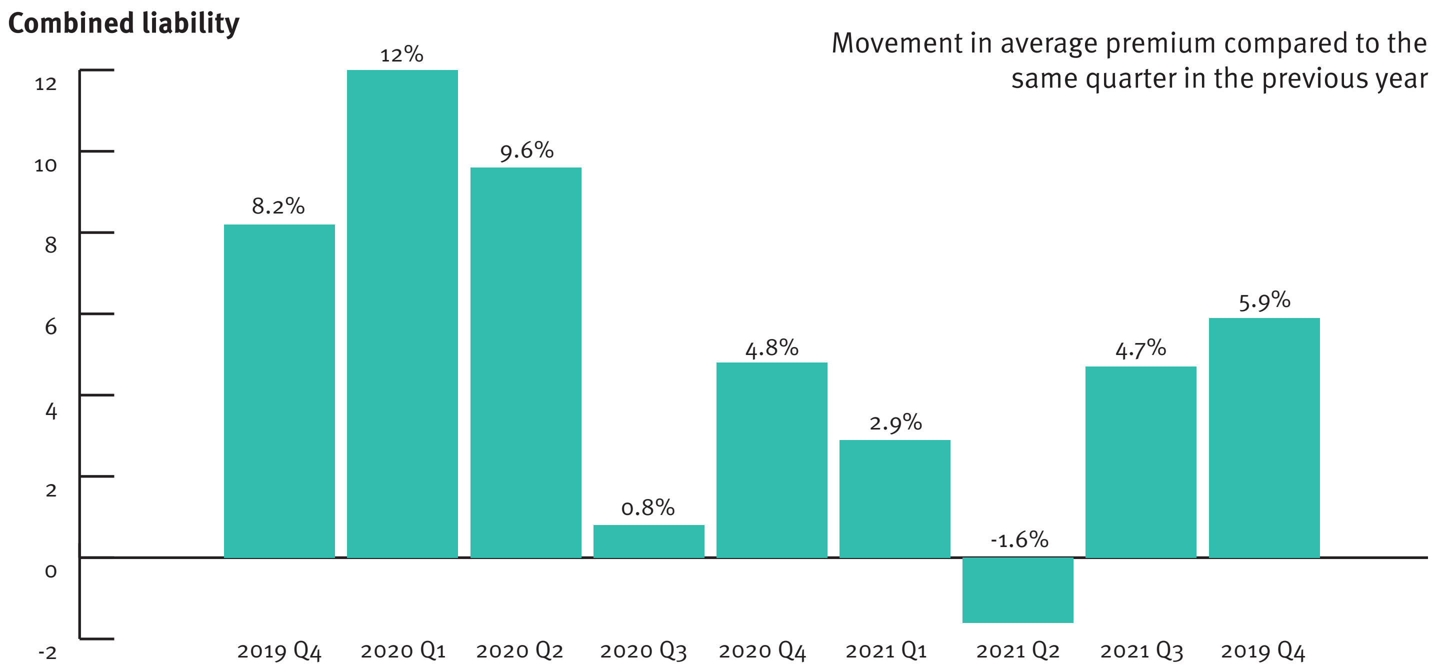
The Acturis commercial broking index (Q1 2010=100)





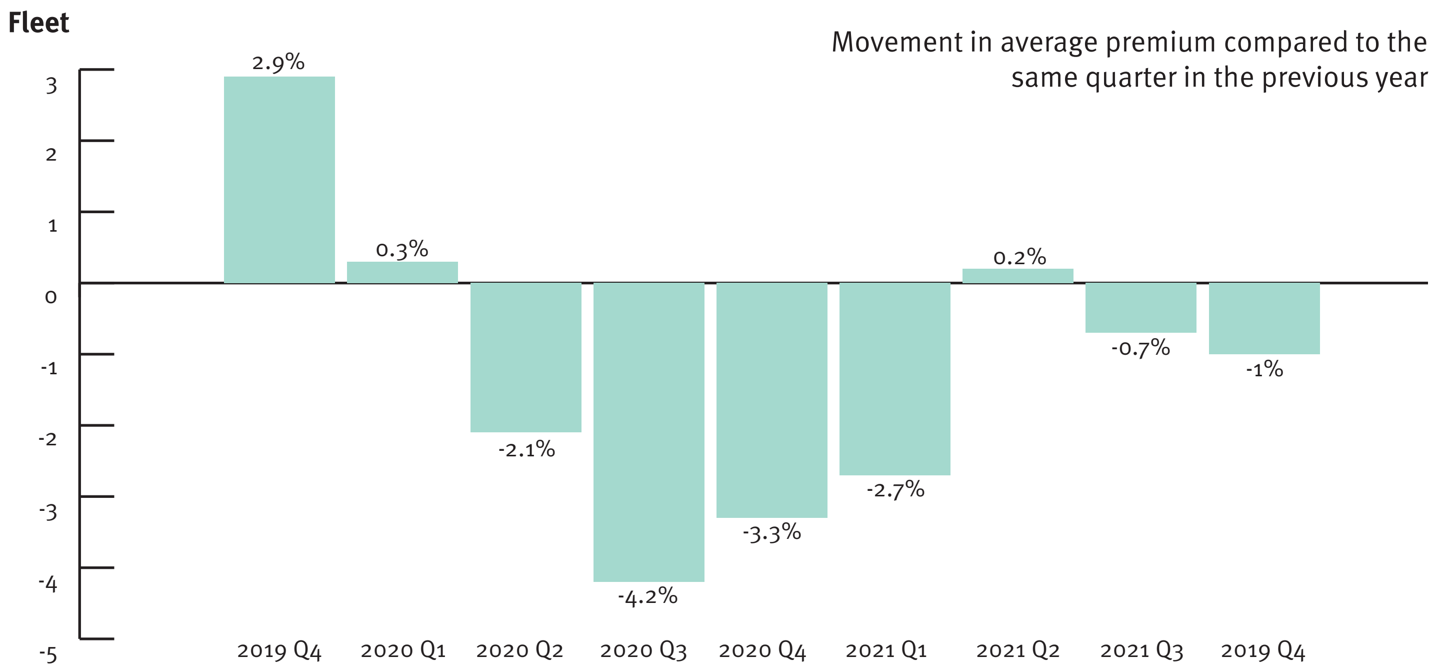
Inflation is a key element, but there are also other factors at play and Acturis states the trend of increasing premiums is likely to continue into 2022.

Mandy Hunt, chief underwriting officer for commercial lines at RSA, comments: "The indices reflect what we have seen across our commercial business, with the need to achieve pricing strength in 2021 driven by a couple of factors, reinsurance changes on one hand and the impact of inflation following Covid and Brexit on the other." She adds further pressures have come from "significant impacts to supply chains, materials being more expensive and wages increasing sharply in the building trade."

Commercial combined – the biggest jump

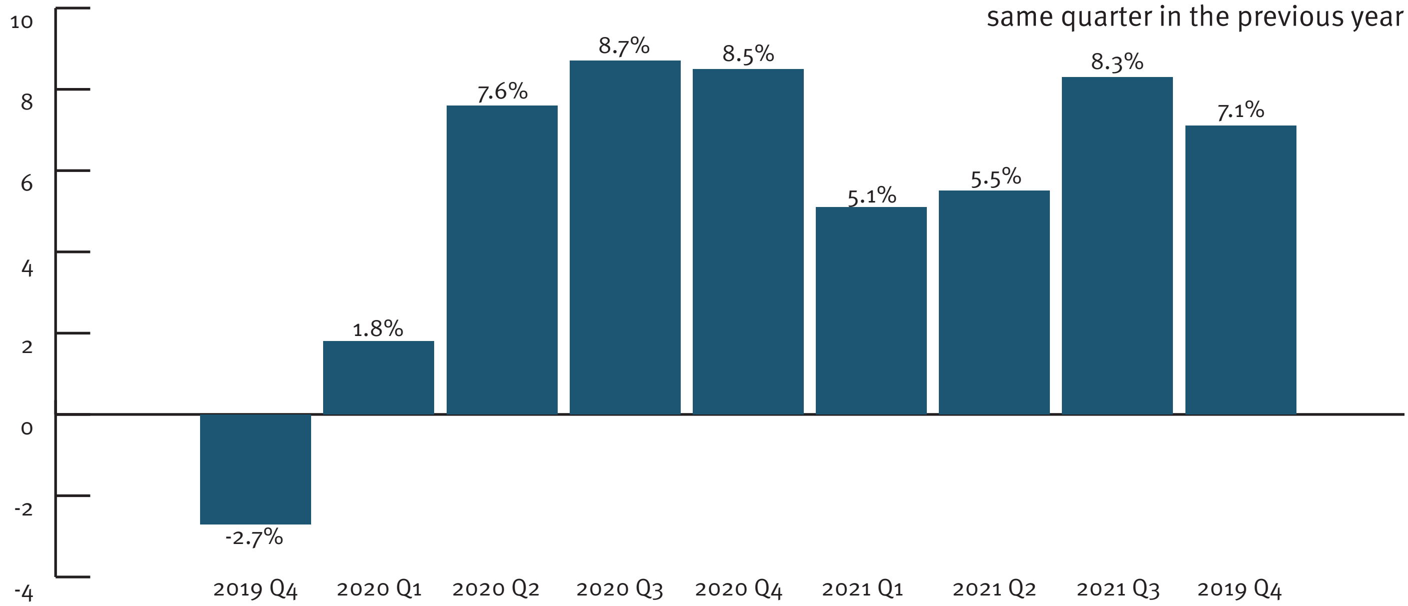
This is the most highly weighted class in the Acturis Index, at 35%, and since a low point in 2018, has seen three consecutive years of growth. Meanwhile in Q4, there was a 4.2% rise over the previous quarter (4.9% compared to 0.7% in 2020), which was the biggest quarter over quarter rise.

Gareth Cotty, managing director, with broker Thomas Carroll notes that in almost all cases, commercial clients are seeing rating increases, with the market going through a period of realignment.



Property owners

Movement in average premium compared to the same quarter in the previous year



Equally, he says restrictions in capacity are proving challenging and that for younger broker staff, this is the first time they will have experienced these conditions. "It's necessary to work a lot harder in many cases, with a lot more client engagement and in some cases, education – we've always sought to ensure our clients as informed as possible, but we're doing even more."

Property owners and tradespeople – signs of respite?

Most other classes of business in the index are showing smaller increases compared to the previous quarter. A case in point is property owners, which for Q4 2021 means a dip of 1.4% (Q4 2020 was 8.5% compared to Q4 2021 at 7.1%).

Property claims have proved exceptionally costly for insurers and as Crotty says, the cover is now considerably harder to place, with the impact of Grenfell Tower and uncertainties over cladding still being felt. This is combined with rising costs in business interruption, which experienced a shock because of the pandemic, the FCA intervention on clarity over claims eligibility and rising claims costs. "All these factors have come together and insurers will also be affected by a knock on of reinsurance costs." »

Commercial combined

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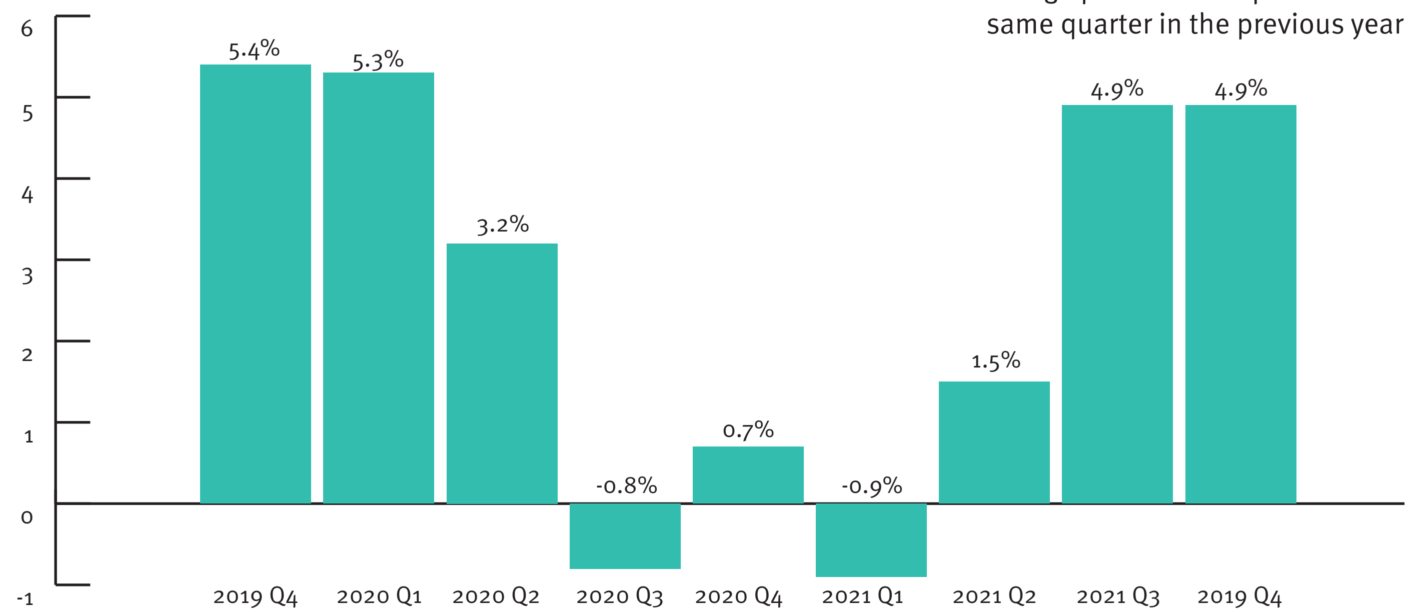

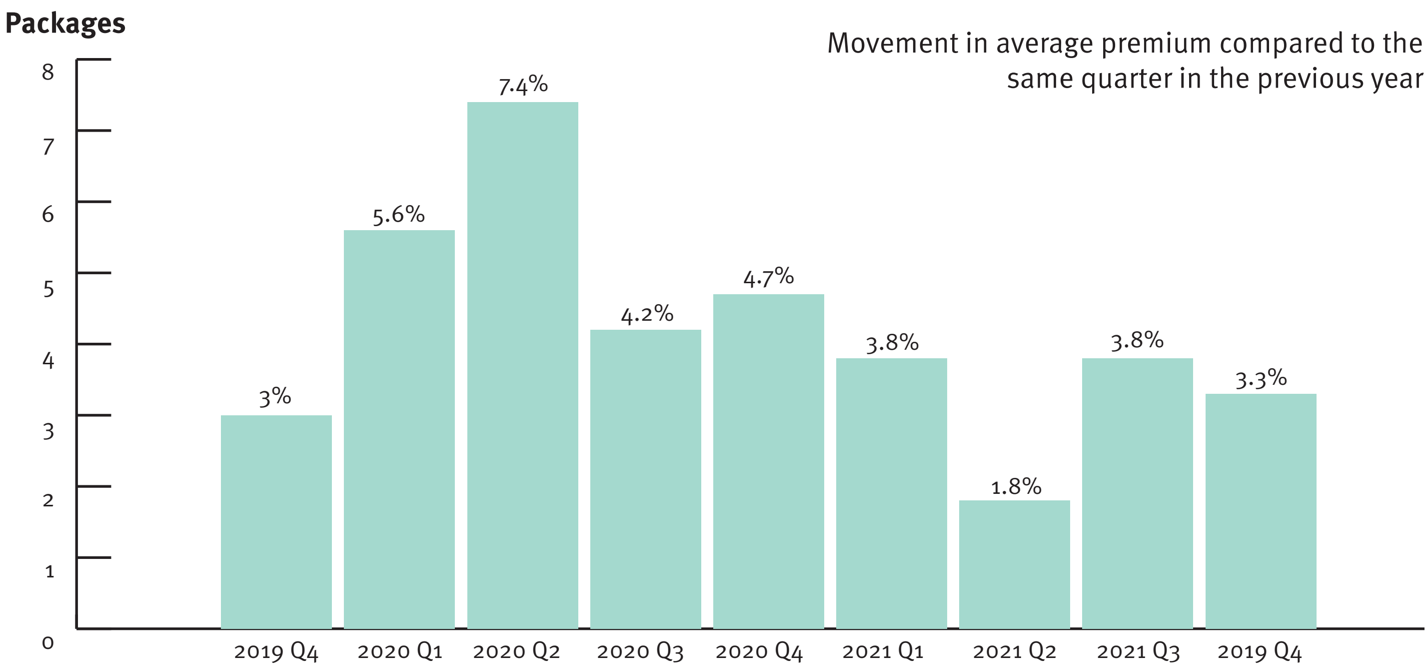

For insurance customers, challenging times are set to continue and brokers are not having it easy either

He adds traditional markets have scaled back cover and even Lloyd's markets have been struggling to offer capacity on some risks.

In the tradespeople class, there was an even bigger fall of 3.3% (as in Q4 2020, the figure was 8.6% compared to 5.4% in Q4 2021). However, even if some premiums are moving in the right direction, they are still clearly going up which will be bad news for many smaller businesses in particular.

Liability – one to watch

A small rise in combined liability – 1.1% could be a worrying sign of more rate hikes to come (in Q4 2020, this was 4.8% compared to 5.9% for Q4 2021) and even more so when coupled to rising inflation.

[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.

As Mandy Hunt points out: "The slowing of liability rates may be short lived, as wage inflation begins to impact on injury losses. For example increased wages being paid on building repairs today, has the potential to see increased injury settlements in the future."

Fleet – lull before the storm?

Fleet rates have been falling and remain in negative territory, undoubtedly as a consequence of the pandemic, although a hardening now looks to be on the cards. Q4 2020 showed a fall in premiums of -3.3%, which for Q4 2021 rose to -1.0%. Hunt comments: "Motor continues to be an interesting market and 2021 was no different with insurers still using post-covid implications, such as less vehicles in fleets, and reduced loss frequency, in their pricing however inflation will impact here, due to the availability of critical parts which will impact claims cost."

For insurance customers, challenging times are set to continue and brokers are not having it easy either. As Crotty says: "In these difficult conditions, brokers are needing more direct contact with underwriters and this is often less straightforward because of the flexible working that largely remains in place and it invariably takes longer to reach relevant people. There are some servicing issues, but we are working to find solutions and we also need to focus on the positive – this is an opportunity for brokers to differentiate themselves." ia