The only way is up – commercial premiums continue to rise

Businesses are yet again facing more costly cover with the Acturis Commercial Broking Index revealing increases across the board, reports **Rachel Gordon**

Figures for Q4 2022 from Acturis show the cost of commercial cover has risen once again, ending at 4.5% higher than for 2021, with the index experiencing its largest year-on-year increase since launch in 2010.

The index represents the average premium in a typical commercial book of business and comprises commercial combined, liability, fleet, packages, property owners and tradespeople.

The value of the index in 2022 was 108.7, the largest value since its inception in 2010.

For many businesses, this latest rise in premiums is piling on more pressure, as well as making brokers' work far more demanding as their clients seek to cut costs.

Looking at the Acturis statistics, commercial combined, for example, went up by 6.2% in Q4, a slight increase on Q3's rise of 5.9%. Tradespeople, meanwhile, rose by 7.3%, up 0.9% over the previous quarter. Only fleet is static, showing a small 0.7% rise in Q4, with a 0.5% for Q3, even so these are small rises as prior to this, fleet had been the sole class to move downwards.

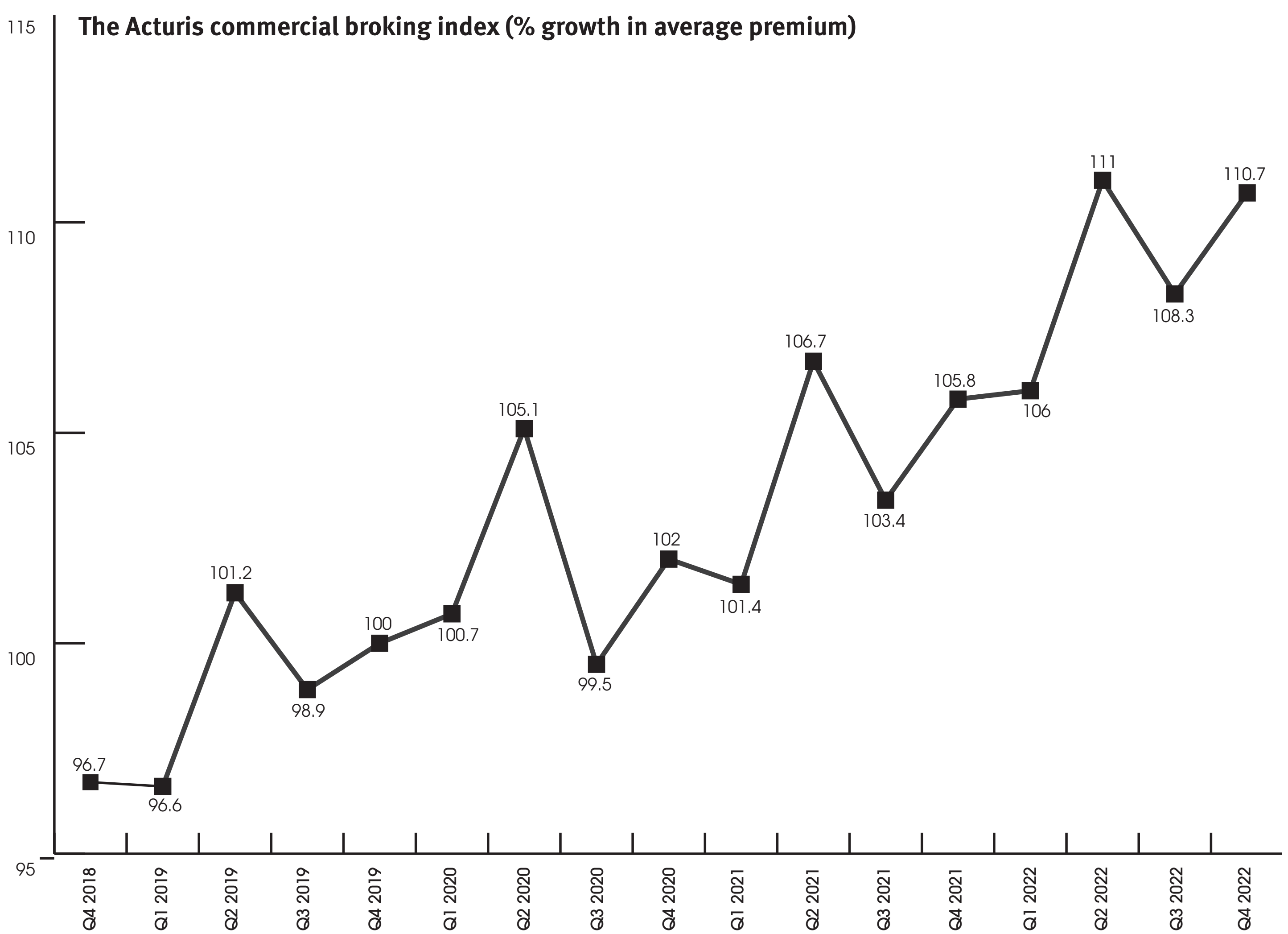
However, as Acturis points out, the cost of commercial cover remains lower than inflation, which hit 11.1% last October. Overall, the 2022 premiums rises were fairly consistent, typically rising by at least 4% compared to the equivalent quarter for 2021. Clearly, inflation is the key driver for these premium rises, with insurers having to pay more for materials and repairs. This will be particularly relevant for the property owners' category, which for Q4 went up by 6.1%, similar to Q3's 6.3%, while in Q3 and Q4 2021, there were even bigger rises of 8.3% and 7.1%, respectively.

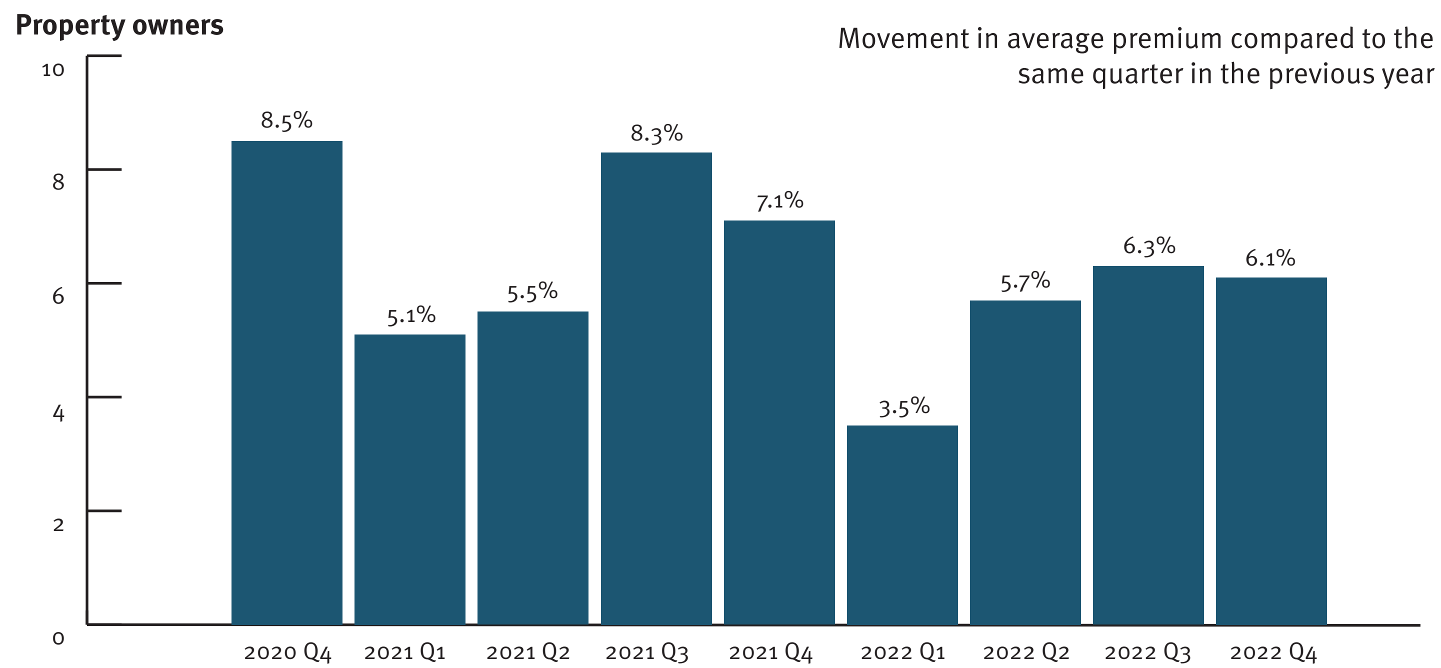
No excessive hikes

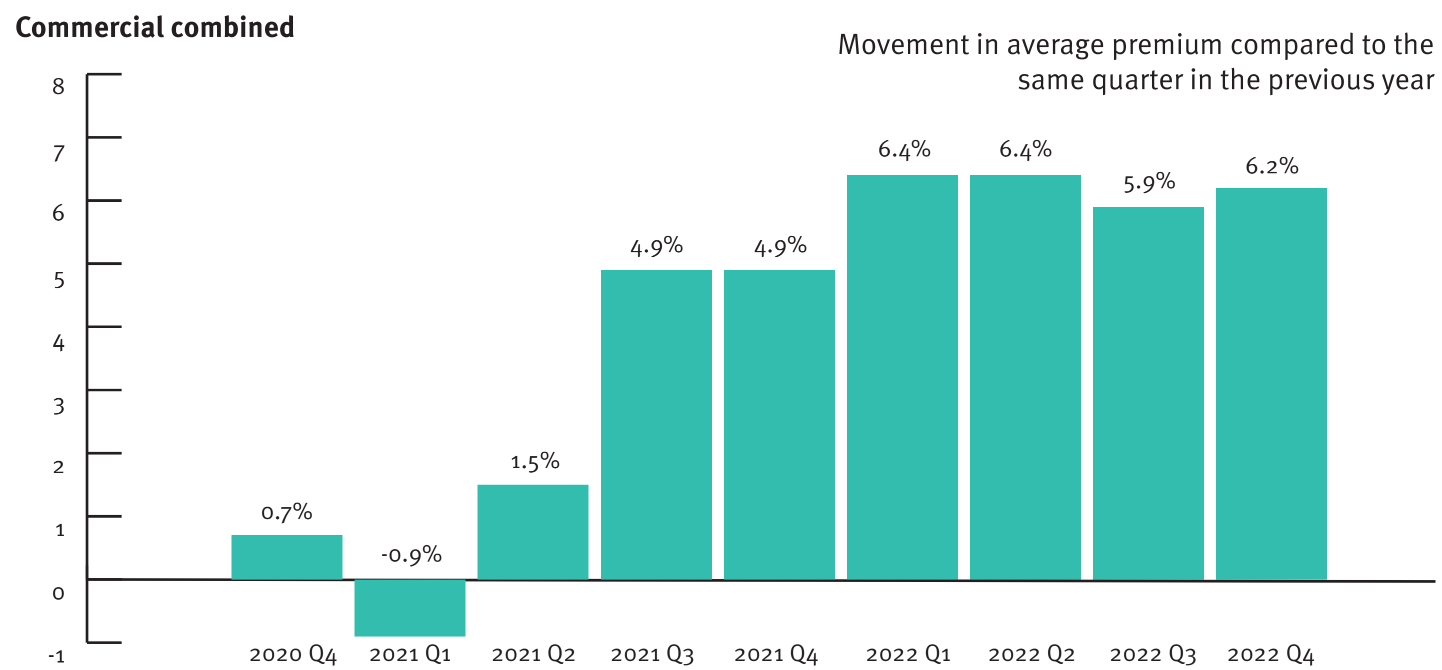
But, arguably, insurers are not hiking premiums excessively, given the UK's high inflation levels. Rob Flynn, managing director, UK SME at RSA, says: "It'll come as no surprise to anyone that challenging market conditions persist. Inflationary and recessionary pressures present in 2022, driven by consistent UK and global themes, are yet to fully abate. There has also followed a particularly difficult [1 January 2023] reinsurance renewal season coming off the back of large natural catastrophes and other losses."

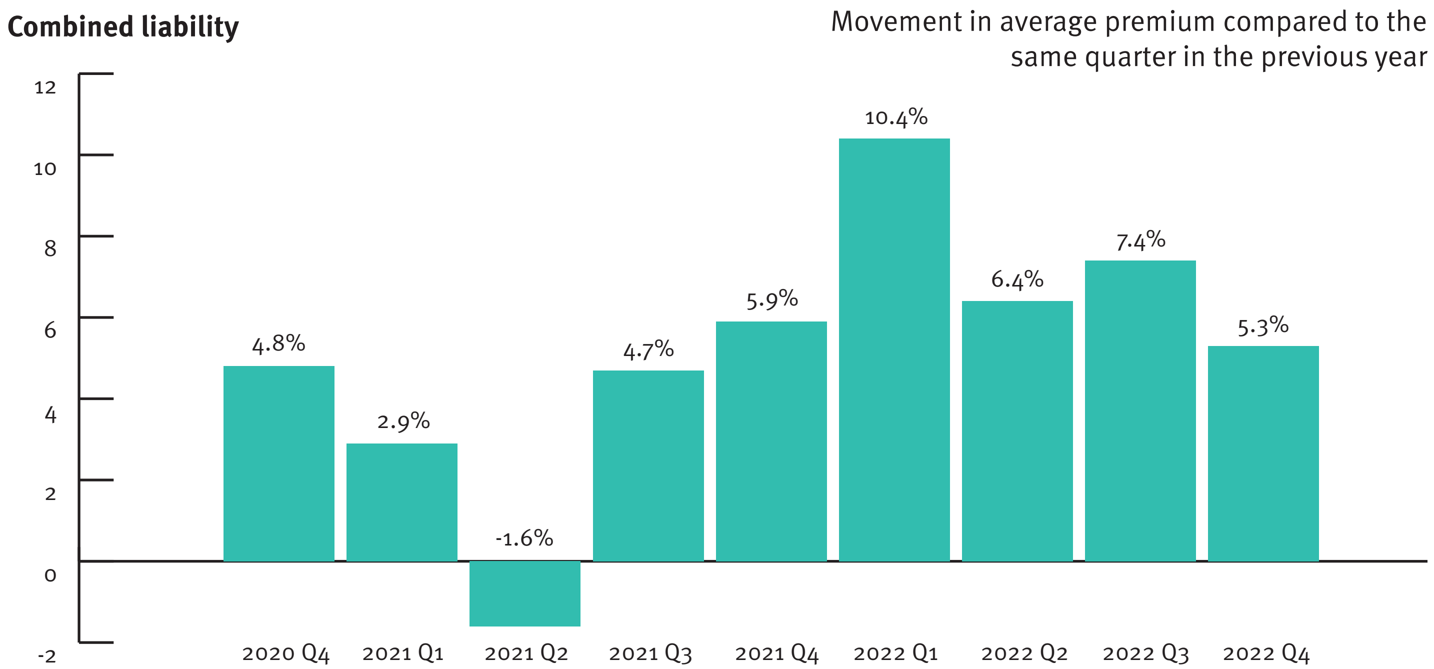
He adds: "The role of the broker and advice becomes more important than ever. Helping customers understand and mitigate risk, manage exposure changes and find the best possible product backed by the highest quality providers is critical.

»









"While this is clearly a challenging period for the industry, it is also where we collectively earn our stripes and an opportunity for the best to define themselves through their product and service offering to emerge stronger still."

Nicki Crabb, Covéa's head of SME and schemes trading, says on smaller risks more customers are shopping around to find cheaper premiums. She comments: "This is where brokers have an opportunity to ensure they are adding real value and providing advice and guidance, as there is the possibility that customers could leave themselves exposed and without the necessary cover in an attempt to save money."

Crabb says brokers remain dominant where there are larger premium cases, such as those with multiple employees and various cover requirements, other than just public liability, or with high risk trade sectors like roofers, ground workers and plumbers.

SME clients challenged

With so many SMEs facing tough times, brokers say they are stepping up to the mark to assist.

Phil Williams, chief operating officer at the Clear Group, comments: "It's fair to say though that the market is extremely challenging at the moment, especially for our SME clients. With the backdrop of significant input costs for all businesses, SMEs especially are sensitive to increases in all prices including insurance premiums.

"In small package and shop policies in particular we have seen many like for like large premium increases, some as large as 40% from some of the large composite insurers. We're having to work harder than ever to mitigate the impact for our small business customers, looking for alternate markets and challenging assumptions. Whilst it is tempting to reduce cover to reduce prices there's never been a more important time to get good quality advice. SMEs were probably the category hardest hit through the pandemic, so it's heartbreaking to see them hit hard once more from all sides."

Broker WRS specialises in the not-for-profit sector, but this too has been hit by rising premiums. According to associate director, Chris Chapman, higher prices have largely been due to, "increased rebuild costs for property insurance within package policies and the effects of 2023's increased reinsurance costs".

He adds technology improvements in online platforms does play a role in reducing delivery costs. "The broking profession is continuing to change and with its skill-sets too. Brokers now have a vast range of online platforms available, which are complemented by being able to explain the various different nuances with different policy wordings and coverage.

"We often find our clients don't realise is how much guidance and advice they really need, or what their expectations should be of their broker. Another challenge is living in a society which has come to expect results and responses instantly and this is expected with insurance quotations too."

No plateau yet

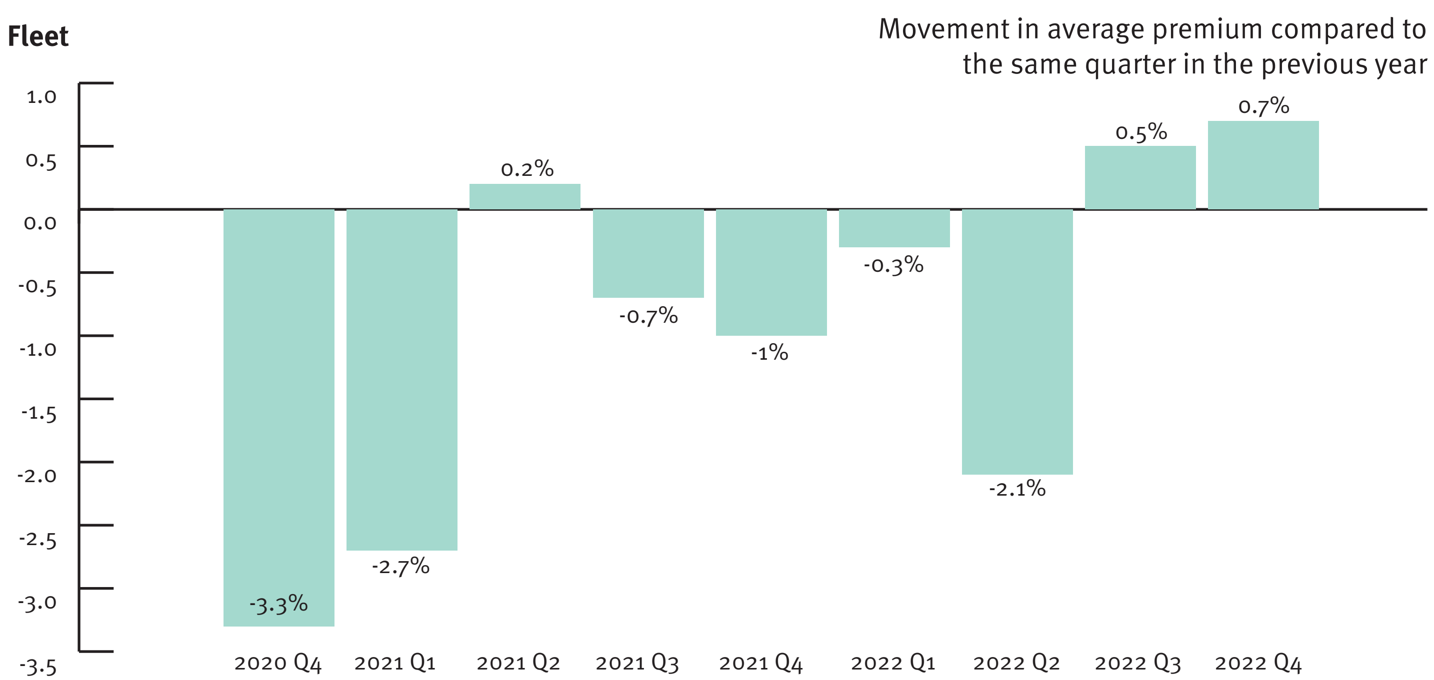
David Perry, managing director at FSB Insurance Service, agrees that SMEs are increasingly concerned about price and believes rates have not yet plateaued – he sees further rises in 2023. "Under insurance is often a big problem and businesses often don't realise the implications of buying less cover in an inflationary environment if they have a claim or that the value of their assets may be soaring."

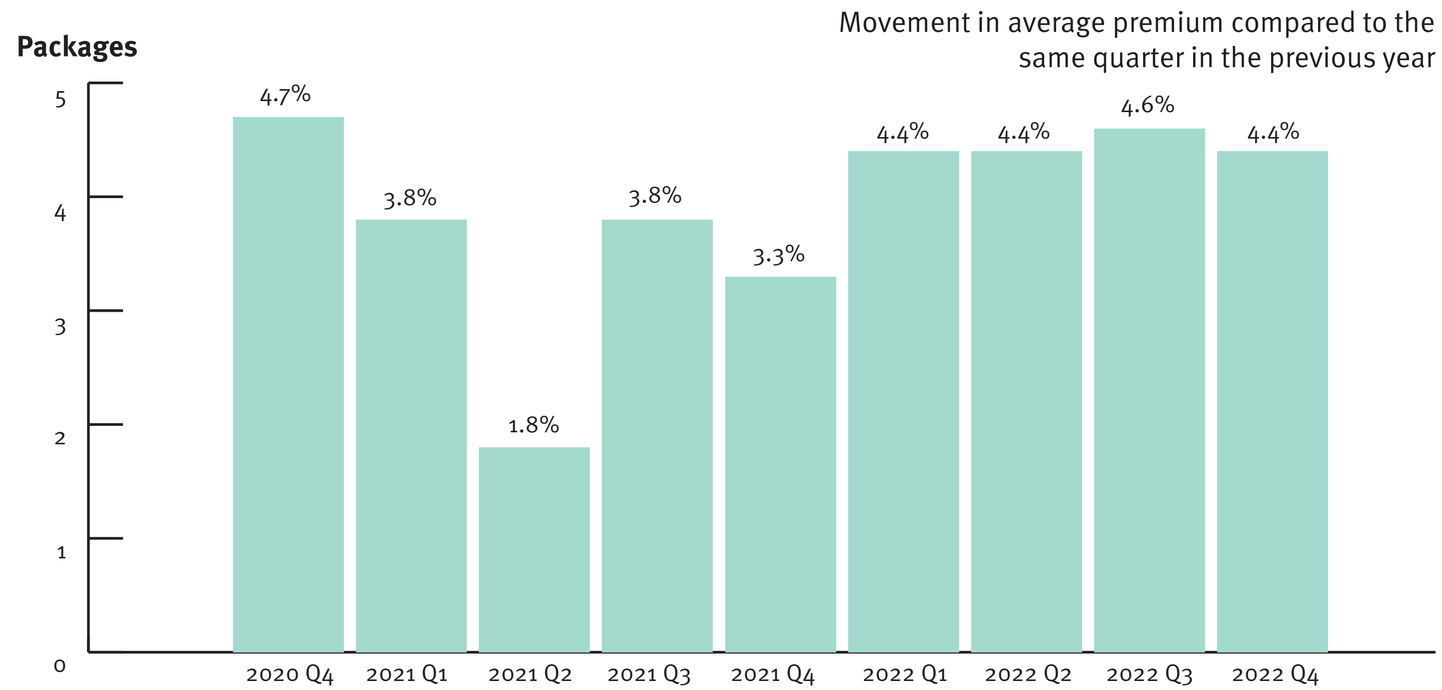
Outside of the index's remit, Perry points out that other commercial sectors are also increasing, such as professional indemnity, for example. He adds stripping out certain covers is also causing many headaches – more firms may not need PI on a mandatory basis, but see it as essential if they are tendering.

Perry adds that insurer appetite for certain areas has also pushed up prices – the care sector being a prime example, as is construction, which is often now subject to more restrictive wordings.

"There may be nothing wrong with buying direct or without advice, but a broker will be best placed if that client's needs are less straightforward. Certainly we're doing all we can at FSB and through my work with the British Insurance Brokers' Association, I'm aware that affordability and the cost-of-living crisis are key issues for us to campaign on."

The gentle premium rises of years gone by are a distant memory now according to these latest Acturis figures. But while many brokers will be doing their best to advise clients not to cut corners, this may become unavoidable and increasingly widespread. The prospects of more commercial under-insurance and poor outcomes in claims appears sadly inevitable. ia





[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 £11bn 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.