Onwards and upwards – commercial rates continue to rise

Insurance rates increased year-on-year by 4.5% in the first quarter of 2023 with property being the key driver according to research from Acturis. **Rachel Gordon** digs into the data

Acturis figures for the first quarter of 2023 show that premiums for commercial insurance continue to climb upwards. This will be difficult news for brokers to relay to their clients – if last year proved challenging, then this one looks to be even more so.

The Acturis Commercial Broking Index covers six core lines: commercial combined, commercial liability, fleet, packages, property owners and tradespeople. It represents the average premium in a typical commercial book of business. Figures for Q1 2023 show rates are 4.5% greater compared to Q1 in 2022. This is the fifth consecutive quarter of annualised growth between 4.0% to 5.0%.

The main driver is property owners, which has jumped up by 9.3% in Q1 2023, while it rose by 6.1% in the previous quarter. But it is ongoing misery for insurance buyers across the board, as all other classes within the index have seen increases. And, as Acturis notes, it is classes with a property component, such as commercial combined (up 5.4% in Q1 2023) and packages (up 4.4%) that have been particularly impacted.

But tradespeople's policies are increasingly expensive, which will be bad news for small businesses, they went up by 6.1% in Q1 2023, after a steep rise in the previous quarter of 7.3%.

The index also shows smaller increases for fleet, which has long been at the bottom of the index and has seen negative movements, also in the second quarter of 2022, the cost of fleet premiums went down by -2.1%. However, even this is now creeping upwards and Q1 2023's figure is 1.2%, with a small rise of 0.7% in the previous quarter.

Fleet creeping up

So, is there any respite on the horizon? Acturis points out that fleet and commercial liability (up 1.3% in Q1 2023 compared to a 5.3% in the previous quarter) are the slowest movers with the rises being well below inflation. But, overall, there are no clear indicators that cover will become more affordable.

Commenting on property rates, Chris Withers, broker distribution director at Ecclesiastical Insurance, says the market overall has seen a lot of disruption in recent years, resulting in upwards pressure on rates, and stemming from a range of issues. These include the Grenfell disaster and resulting construction issues, involving materials and methods.

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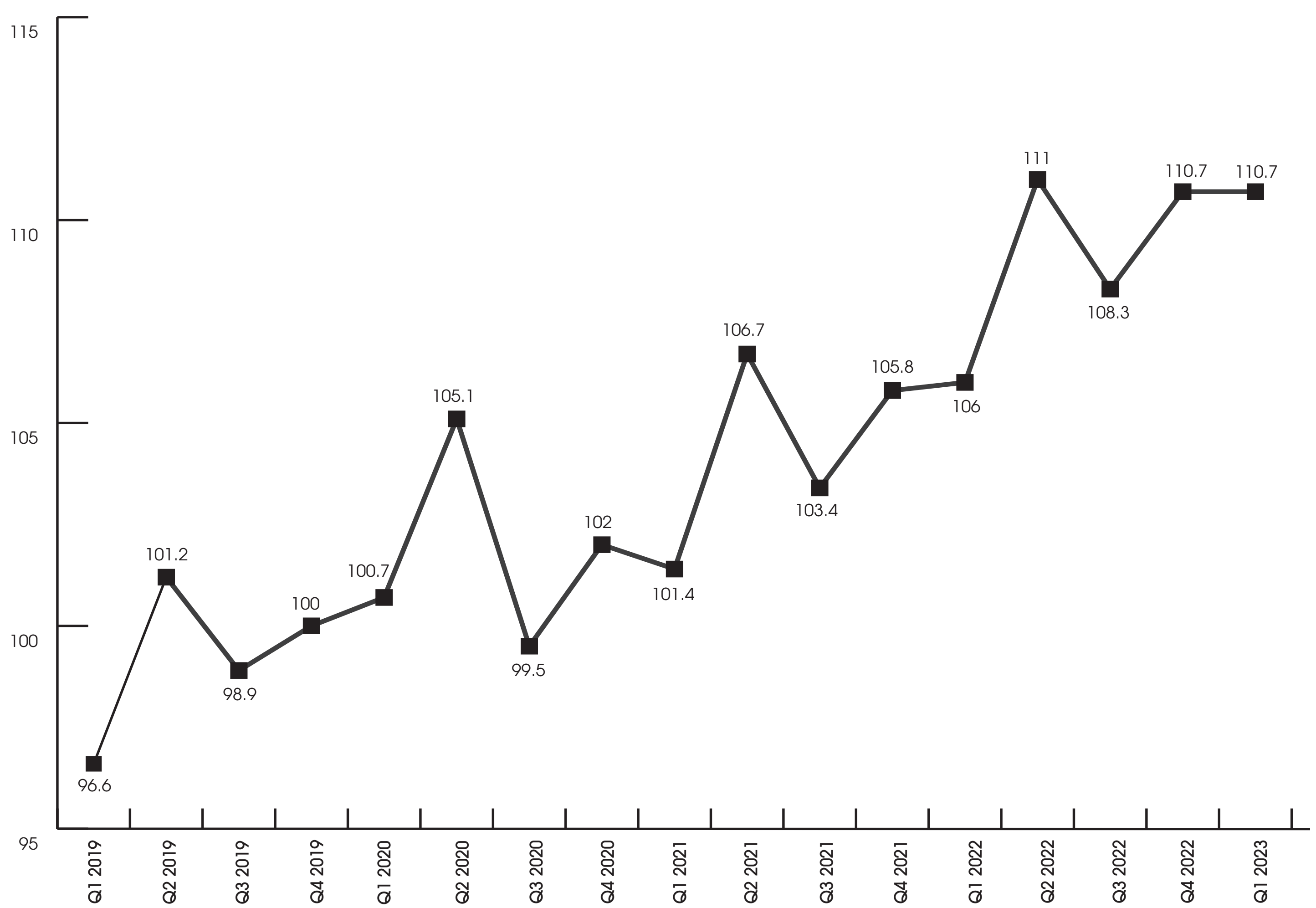
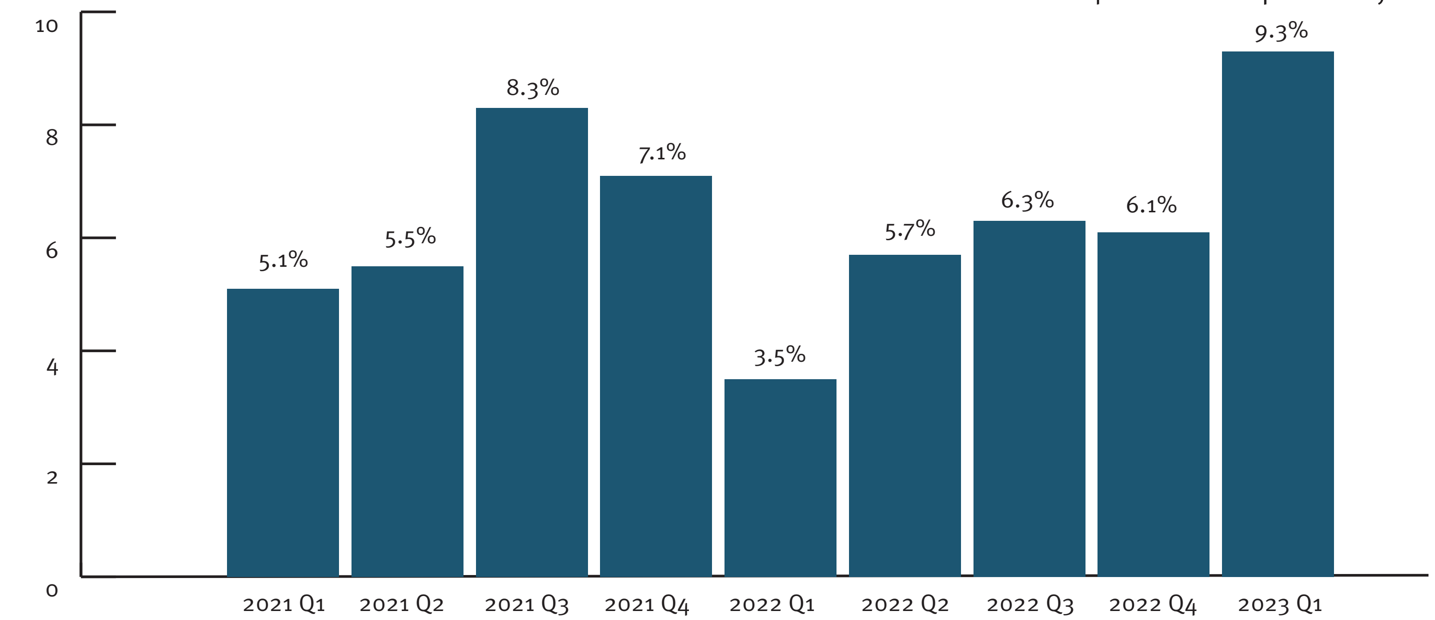
The Acturis commercial broking index (% growth in average premium)



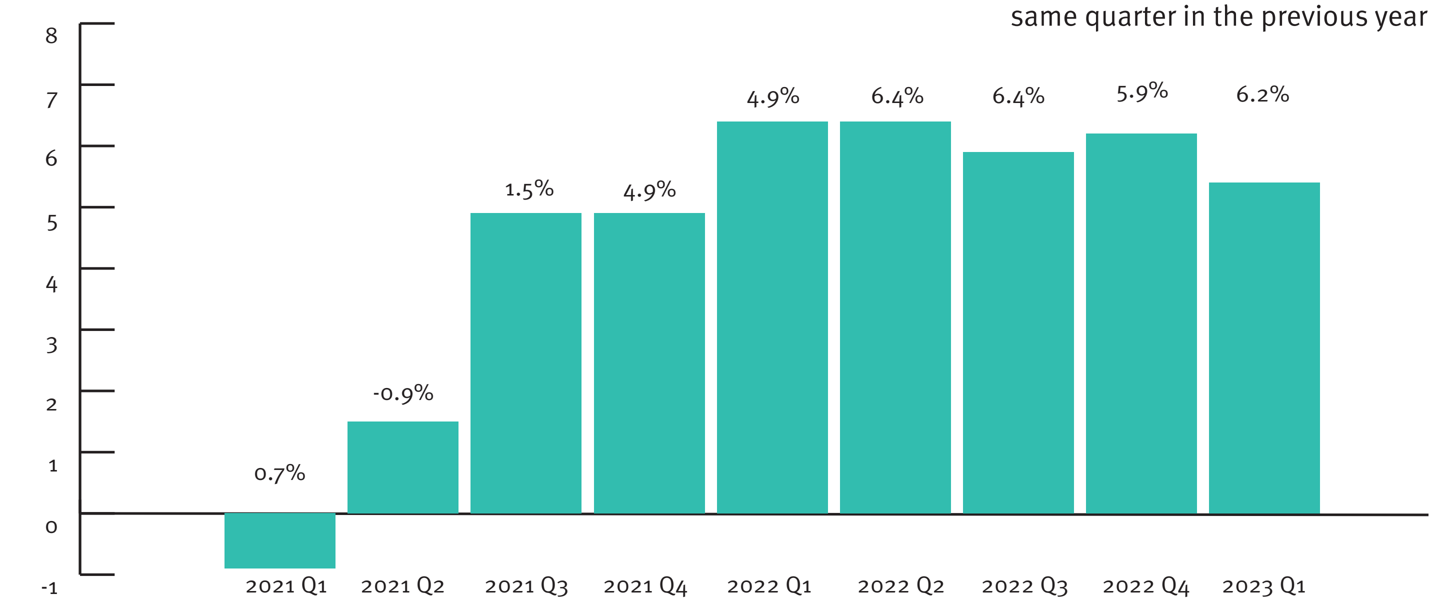
Property owners

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



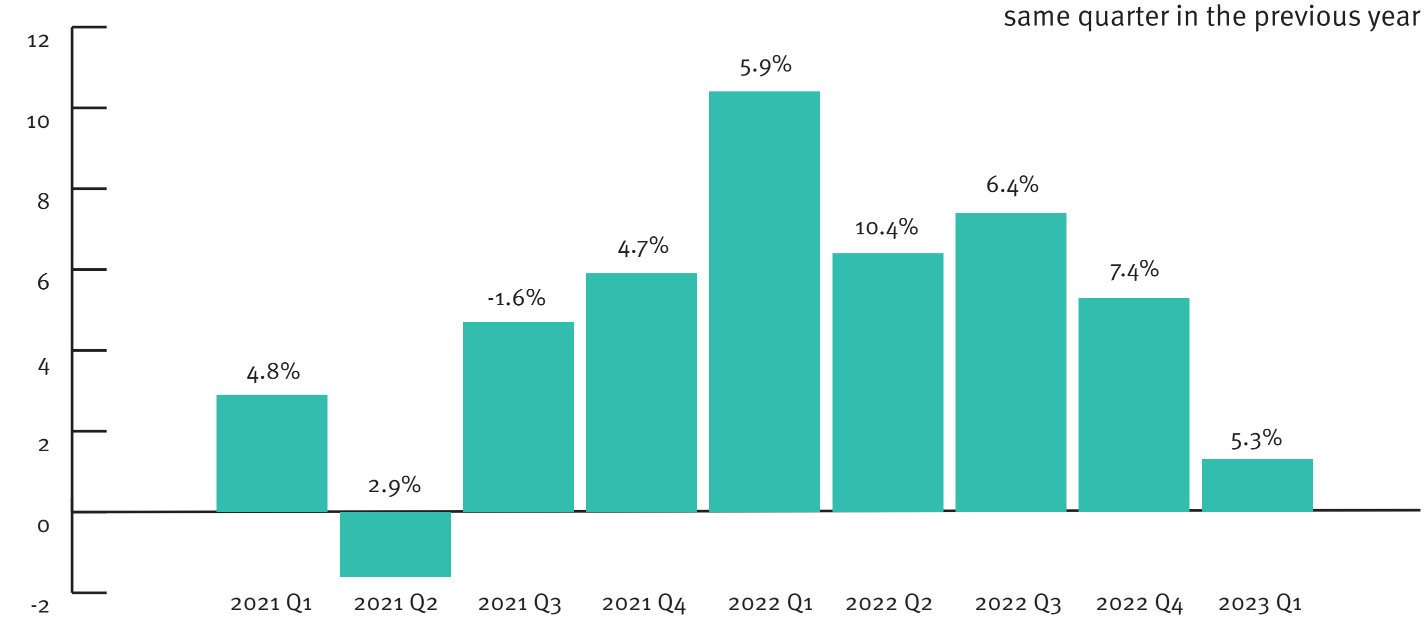
Commercial combined

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



Combined liability

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



Withers adds: "Insurers have had to rethink what they are able to offer and make changes to cover. There was also a reduction in capacity and a hardening of the market. The impact from Covid-19 and underwriters having to work from home was also problematic. This is alongside rising inflation, although there are signs that this is now steadying."

There is further flux in the sector, since the Financial Conduct Authority has multi-occupancy leasehold buildings as a priority, and brokers have been told to stop paying third parties commissions. The regulator is also keeping a close eye on the level of commissions being paid, and this might mean downward pressure on property rates in the future.

"There is also a requirement for the insurer to know what service is being provided and we want to know that commission is being fairly earned," explains Withers.

For some insurers this may mean additional work, but overall, he points out that the moves should see far more transparency in the market, which will benefit policyholders. Withers adds that it is essential to be focused on consistency and Ecclesiastical has sought – as far as possible – to only implement moderate premium rises.

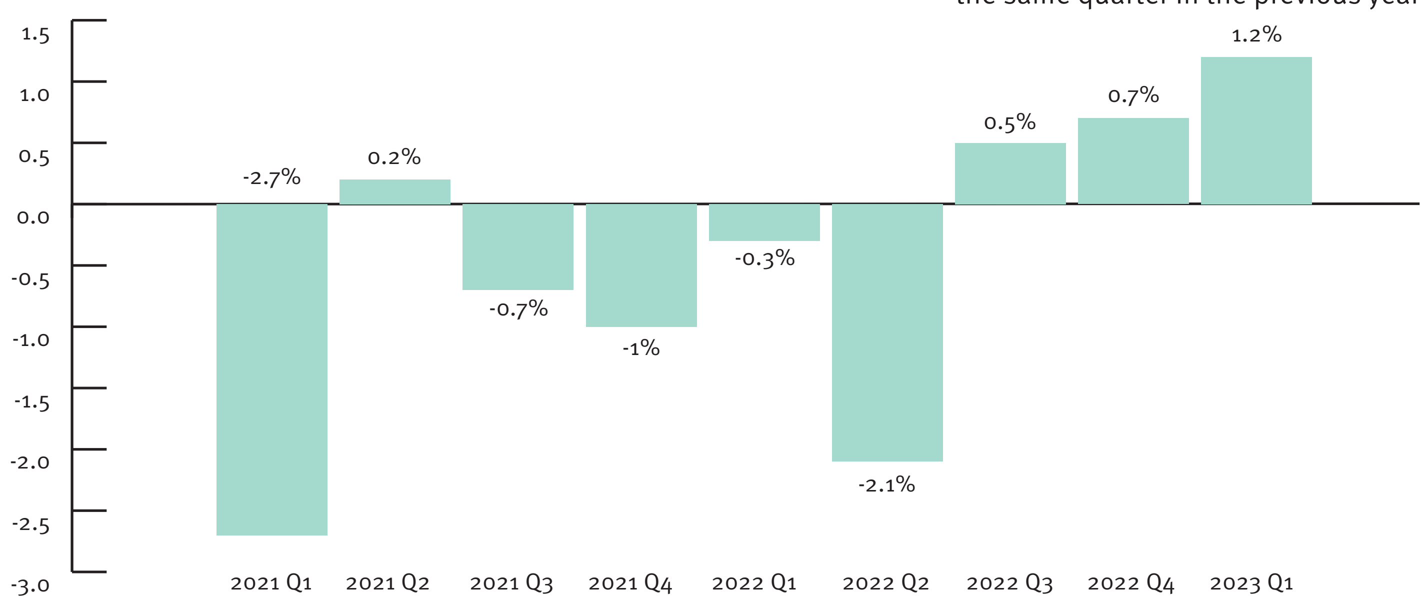
Corrective actions

Rob Gleeson, managing director at Towergate's real estate division, comments: "The big factor affecting rates is claims inflation, which is due largely to the rising cost of building materials and high demand for contractors.

"Claims costs have increased by around 15% year-on-year, and this obviously affects the rate as insurers attempt to correct the performance of their property book. We expect this situation to continue for the rest of the year."

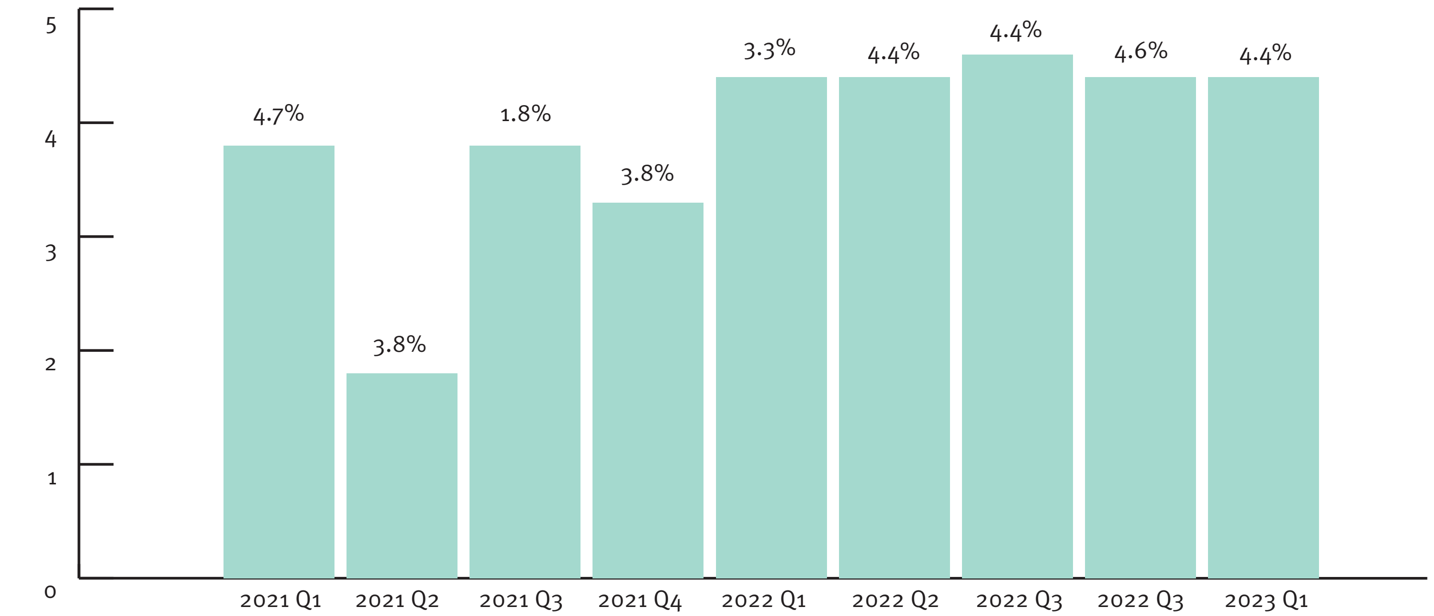
Fleet

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



Packages

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



Gleeson adds that there is some mitigation within Towergate because of exclusive arrangements with internal and external partners, and "taking good risk management very seriously" along with offering additional offerings in this area to support clients.

Meanwhile, Stephen Campbell, broking manager at Vista Insurance Brokers, says commercial property presents "ongoing placement challenges". He comments that some "property damage sums insured have seen reinstatement valuations for buildings rising by up to 50% due to wider inflationary pressures, scarcity of materials, and delays in labour availability. Moreover, this situation is compounded by insurers reducing their capacity and, in certain cases, necessitating the inclusion of facultative reinsurance."

He adds that problems are further compounded for more complex placements. "Where unfavourable cladding is involved, the decrease in line sizes necessitates the addition of multiple insurers to the programme, further amplifying premium costs."

John Batty, director of technical services at Bridge Insurance Brokers, emphasises that there are issues affecting residential property insurance. He says residential risks include "the escape of water epidemic, but also with regards to continuing issues around fire safety. This isn't just cladding, its timber balconies, and it's lack of cavity wall barriers and polystyrene insulation.

While remediation is starting to happen, it's nowhere near quick enough, so the proposed pooling solution established by the Association of British Insurers, with support from the British Insurance Brokers' Association and its members, cannot come soon enough."

Vanilla risks plateauing

Focusing on commercial, Batty believes rates may have plateaued for "vanilla" risks, but "anything remotely out of the ordinary presents a real conundrum when it comes to placing 100% of the risk and the skill and expertise of an experienced real estate broker is essential".

He believes this may have a knock-on effect on professional indemnity cover, and explains: "The complex nature of some co-insurance and excess layer arrangements that junior brokers are probably experiencing for the first time could have huge repercussions on a broker's professional indemnity exposure if the intricacies these types of arrangement present are overlooked."

Batty points out that the claims environment is also tough, and it appears insurers are taking an increasingly harsh line.

He says: " We are seeing insurers challenge the adequacy of sums insured and inflation on repairs for every single large loss now."

Whether battling for a claims payout or simply trying to afford property premiums, these latest Acturis figures show an insurance market dealing with numerous challenges – and there are certainly no immediate solutions in sight. 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.