The stats: Q3 hit by rocketing property owners and fleet rates

Rachel Gordon

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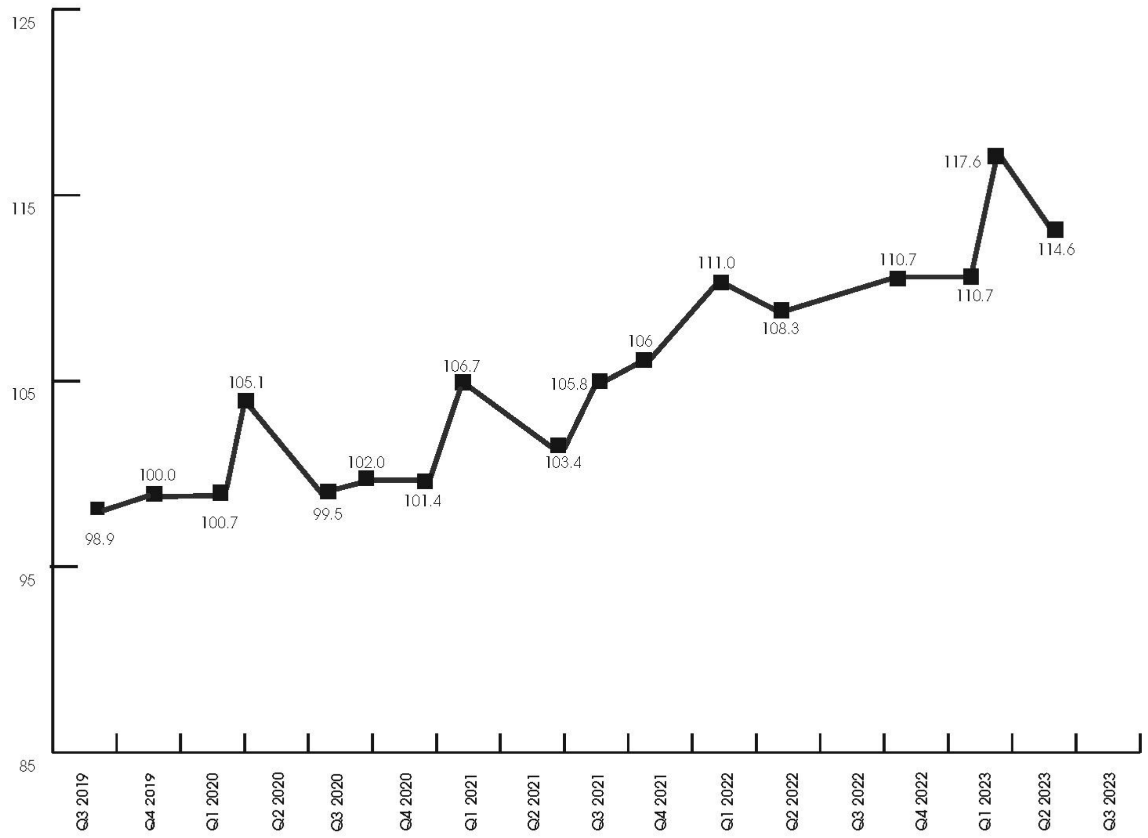
Indicative reading time: **10 minutes**

The latest figures from Acturis show that commercial insurance premiums continue to rise, resulting in an increasingly challenging environment for brokers and their clients, reports Rachel Gordon.

Figures for the third quarter of 2023 from the Acturis Commercial Broking Index reveal that the cost of business cover is 5.8% more than when compared to the same quarter of 2022, with increases driven by hikes in property owners and fleet insurance.

The Acturis Commercial Broking Index looks at the average premium in commercial combined, combined liability, fleet, property owners and packages.

The Acturis Commercial Broking Index (% growth in average premium)



Source: Acturis 2023

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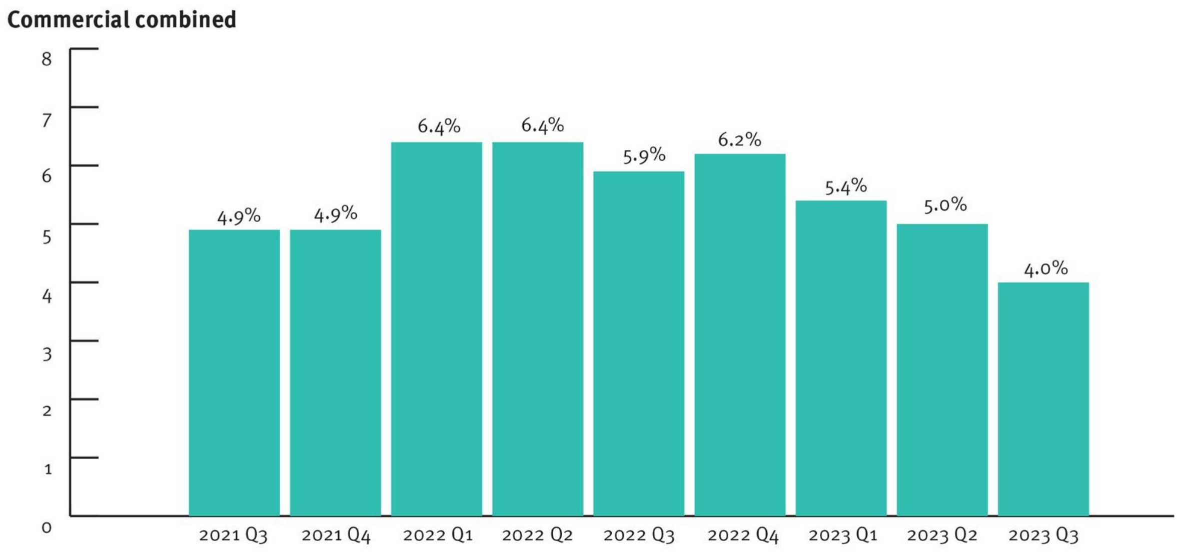
There are glimmers of hope with the examples of premium rises slowing down – **commercial combined rose by 4% in Q3 compared to 5% for the second quarter**, tradesman's went up by 3.9%, while in Q2 the rise was 5.8%, while packages rose by 4.1%, compared to 5.2% in Q2.

Commercial combined

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



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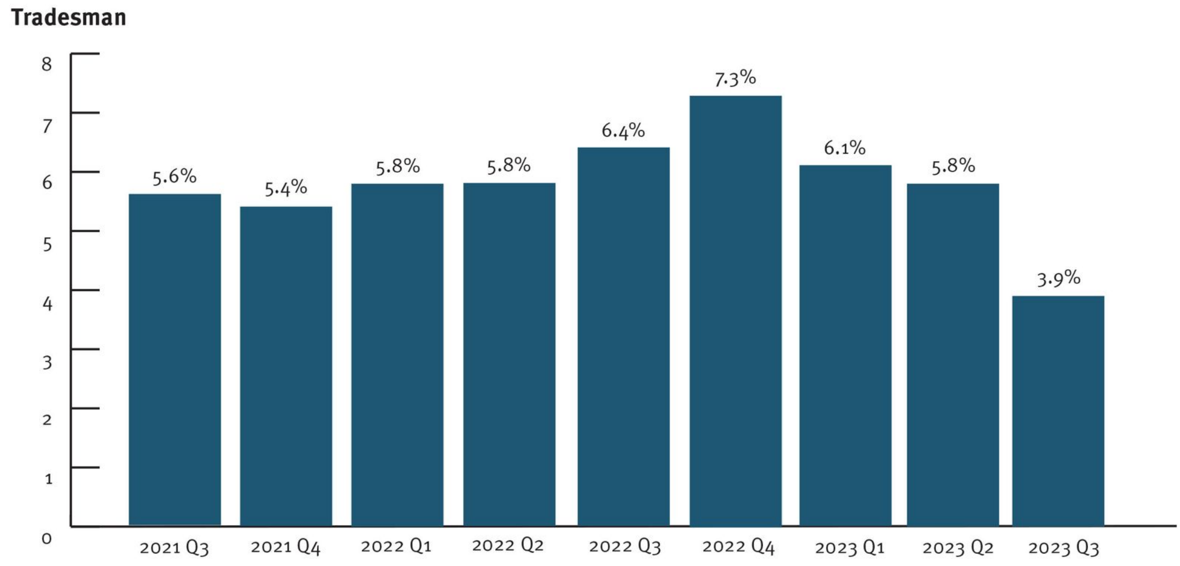
Tradesman



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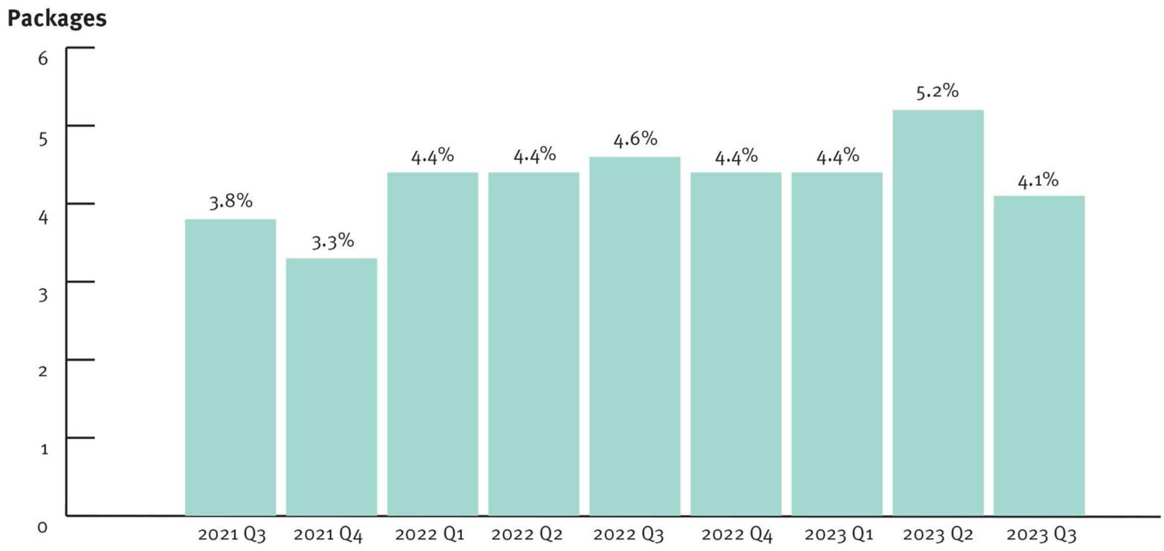
Packages

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



Source: Acturis 2023

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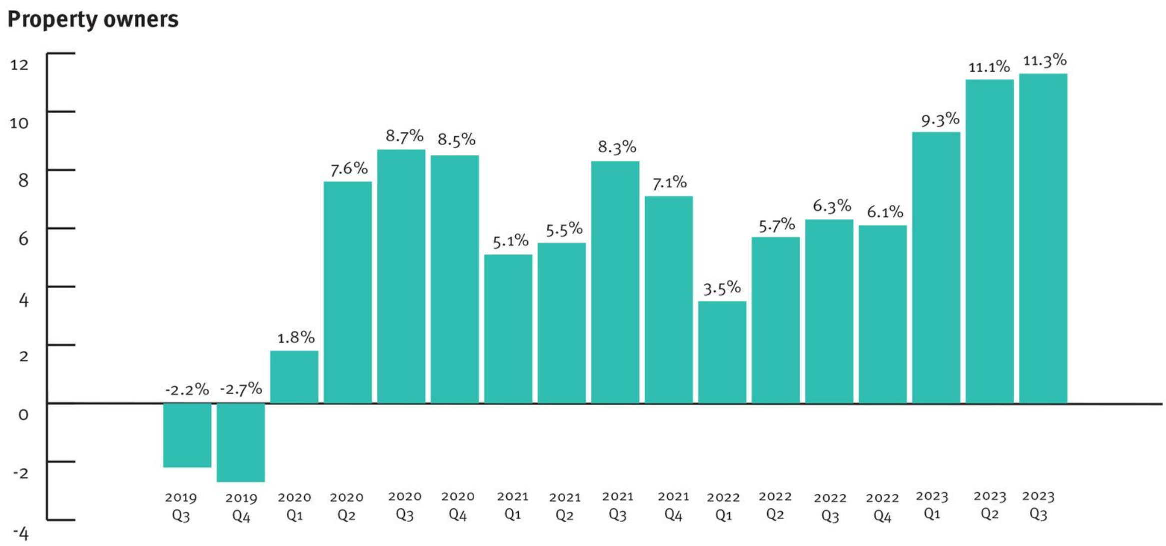
Even so, two classes stand out: property owners and fleet.

Property owners is the index's hardest hitter, going up 11.3% in Q3, while the Q2 2023 hike was also a significant 11.1%. According to Acturis, the continued increase is related to claims and poor performance, but what are the underlying reasons?

Property owners

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



Source: Acturis 2023

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Nick Taylor-Ward, chartered insurance broker at Konsileo, says premium rises are most noticeable “in the non-standard list, which is growing”, although the market is becoming a little more competitive.

Yet there is caution in the property insurer market, and Taylor-Ward points out that insurers are often reluctant to provide cover if a building is under three years old, as they want to know if defects are present.

Flooding

Rates are being impacted because of flood risk. Taylor-Ward explains: “It’s a concern. There are likely to be more buildings that are unable to renew, and it will impact across the sector. This is the time to see major investment in flood defences to keep properties insurable.”

He adds: “Flooding will continue to affect the affordability and availability of insurance. Even with Flood Re for home insurance, insurers will generally tend to avoid providing cover. We are going to see recent floods costing hundreds of millions of pounds in claims."

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However, Taylor-Ward notes that government measures, which were announced in October, will offer some respite, including the SME business recovery grant of up to £2,500 and a payment for up to £5,000 for property owners to make homes and businesses more resilient.

Dan Berry, chief underwriting officer for Brown & Brown Europe, says: "As we enter the winter storm season, developments in flood and storm modelling will be tested. I think we will continue to see volatility in the number and severity of weather events, including losses in areas [that are] not traditionally considered 'flood-exposed'."

The Grenfell Tower fire from 2017 had a seismic impact on the property insurance market, but it has also resulted in more stringent building safety. Despite this, there are still buildings with cladding whose owners are paying high premiums.

Concrete

Beyond these factors, Taylor-Ward says reinforced autoclaved aerated concrete (RAAC) is another influential factor. Although largely it has been seen as a problem in schools, he points out that it was used in many other buildings built between the 1950s and 1990s, typically those with flat roofs, including car parks.

It means a building could fail without warning. "The general lifespan of a building is about 30 years. They won't last forever, and the presence of RAAC could result in parts of a building breaking away from the steel supports, which can be extremely dangerous."

On the other hand, there may be some reductions in blocks of flats' cover as the impact of **new Financial Conduct Authority measures** take hold. These are aimed at supporting leaseholders in multi-occupancy buildings, meaning brokers can no longer pay commissions to managing agents and freeholders unless they can prove this is justified.

Taylor-Ward is supportive of the moves, and says: "A policy must not be sold on remuneration levels and [must] represent fair value. Although the reform does not exclude payments to a managing agent, who may introduce the business to the insurance broker, the broker must collect a fair and reasonable fee for the work they are doing.

"A share can be a pay-away, but the earnings of the broker should not be increased to make way for this."

Taylor-Ward says work done on a "transparent fee basis" looks set to become more commonplace.

Berry comments: "The FCA's focus on multi-occupancy buildings insurance and residential buildings insurance, in particular, will impact how that business is traded and lead to more transparency for customers.

"The distribution chain is under scrutiny, and property managing agents will have to detail what services they provide and justify a fee for those, rather than collecting undisclosed commissions."

Stable outlook

Looking ahead, Berry comments that property rates "have been buoyant in 2023, and the trend is expected to continue in 2024, albeit not at the same level we have been experiencing this year.

"Premium increases [which are] driven partly by rate increases, but largely by index linking due to inflation, have been challenging for customers with inflation seemingly on a downward trend. However, this pressure should ease, bringing a more stable outlook for 2024."

Higher property rates may also be contributing to underinsurance problems.

Jason Chambers, head of underwriting transformation at Aviva, says the issue is high on the agenda and there has been an ongoing programme of activity.

£650m

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Chambers adds that, in 2022, around 65,000 commercial policies were assessed with more than £650m of underinsurance detected.

"Customers could be sitting on a time bomb," he explains, which could mean that only a partial payment is received instead of full reinstatement.

Aviva's Commercial intelligence tool

Chambers says brokers and insurers need to work together to address the situation, and Aviva has embarked upon a programme of greater personalisation to ensure there is more accuracy and understanding, allowing brokers to present a picture of the client's position.

It may make sense to look at valuations more frequently because of the effects of indexation and rising costs resulting from supply chain issues, building materials and labour shortages.

Jason Chambers

The insurer's 'commercial intelligence tool' uses a range of data sources, allows underwriters to estimate the cost of rebuilding, and the data can be shared with the broker. Properties most at risk are identified, with the broker able to provide the client with a personalised report.

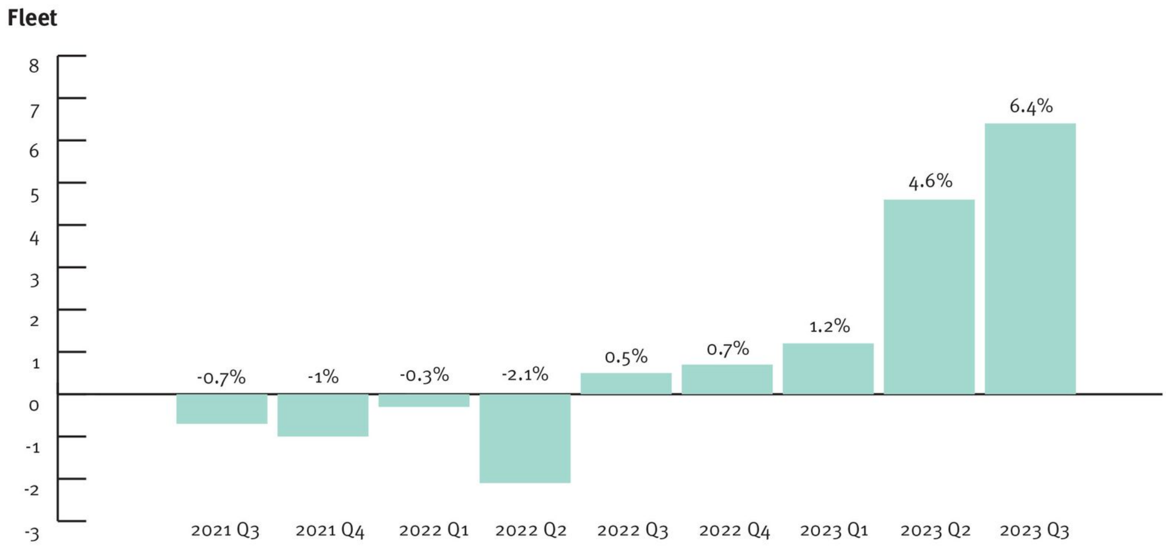
According to Chambers: "It may make sense to look at valuations more frequently. Typically, these typically take place every three years, but perhaps every two years may make more sense because of the effects of indexation and rising costs resulting from supply chain issues, building materials and labour shortages."

Increases in fleet

Fleet is also experiencing sharp rate increases in 2023. The first quarter saw a modest 1.25% rise, which then increased to 4.6% in the second quarter and for the third quarter, it jumped to 6.4%.

Fleet

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



Source: Acturis 2023

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Matthew Collins, managing director of Ascend Broking Group, says the challenging conditions can be seen across all areas of commercial motor from company car fleets to haulage as well as sectors.

He comments: “The market has been affected by a number of issues. Certainly for a number of years, motor insurance was too cheap, and there were widespread losses.

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reinsurance renewal season also resulted in increased cost and pushed up premiums.

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Matthew Collins

“There has also been a reduction in capacity, which makes it even harder for brokers to find competitive pricing.”

The haulage sector is under particular pressure. There remains a shortage of drivers, and the workforce is ageing, while accidents involving lorries tend to be the most serious – road casualties are returning to pre-Covid-19 pandemic levels.

Collins adds that claims costs are rising further because of delays.

“We’re finding clients are being told there are hold-ups before work can start, it’s not uncommon for someone to be told they will have to wait at least a month for a repair.”

The broker carries out regular assessments of insurer performance – known as the Ascend Index – which takes into account claims service.

“We’re finding delays across the market and we share our findings with clients - it can be a factor in paying a slightly higher rate if the claims service is better,” he added.

Repairs

Even if an insurer has a repairer network, Collins points out that it may make little difference to starting work promptly if there are labour and parts shortages. “We’re seeing a lot of these insurers now trying to outsource more work to independent repairers to deal with the backlogs, but these too are turning work away or saying they can’t start until after Christmas.”

Marianne Turner, senior claims manager for Ascend, says front-line staff within brokers spend an increasing amount of time chasing up claims. Turner had recently spent an hour and a half waiting to get through to one of the largest fleet insurers, which is not untypical.

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Marianne Turner

"Brokers are having to bear the brunt of customer dissatisfaction and trying to manage expectations. You can understand the frustration, particularly if they have had to absorb a higher premium and they find there is a shortage of courtesy cars," Turner says.

Monitoring service

"We monitor service carefully. Among the larger insurers, Allianz is proving more efficient and they have invested in some useful technology such as online reporting and you can get through to someone quickly through the online chat facility.

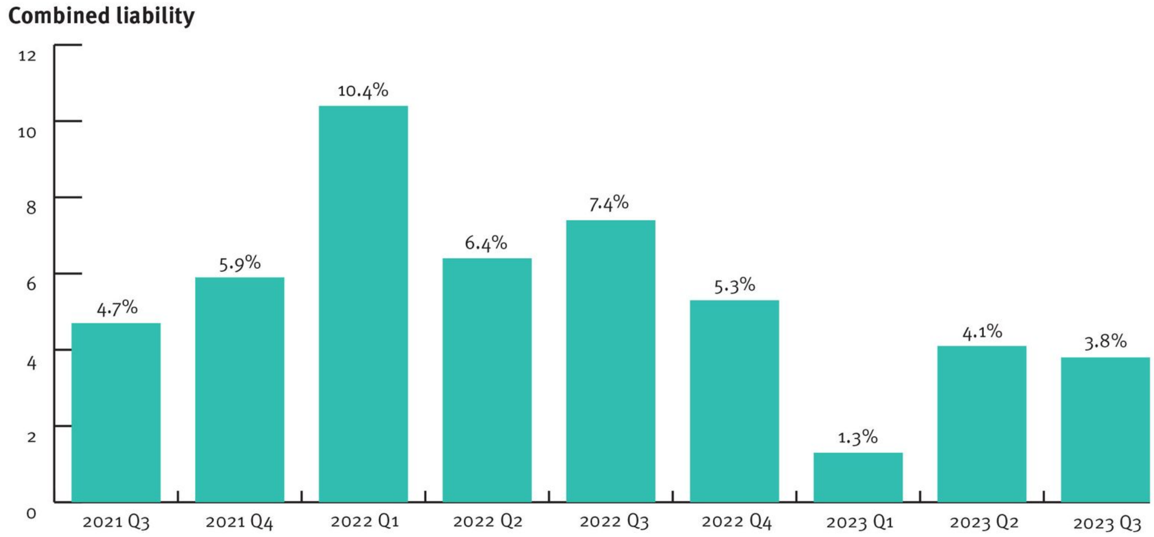
"We also rate DCL [Direct Commercial Ltd], a specialist MGA, where you can get through on the phone in minutes – these are the exceptions at present."

Meanwhile, a sense of perspective should be retained – fleet is going up, but from a low base.

As Gerry Ross, head of commercial motor for Allianz Commercial, says increases have been higher in private motor, even though commercial has the same inflationary pressures. Ross adds that underwriters are remaining disciplined to ensure the market stays sustainable.

Combined liability

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



Source: Acturis 2023

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Financial climate

In addition, driver training and risk management continue to be important.

He explains: "In the current financial climate, some businesses will understandably be more careful with their expenditure, but cutting back in these areas is detrimental in the long term.

It's important to use the insurer's approved repairer network, which will ultimately protect their premiums in the long term.
Gerry Ross

"We work with brokers and customers, and offer a range of solutions to help businesses improve driver safety and reduce fleet running costs.

"Insurers will always reflect well-managed risk in their pricing for businesses that invest in driver training and risk management."

Ross highlights that the motor sector will continue to experience tough market conditions and inflationary pressures into 2024.

"In the commercial market, brokers, clients and insurers need to work closely together to manage claims costs and reduce customer impact. For example, direct early reporting of claims is key, as well as providing third party contact details, so the insurer can help mitigate any third party claims from escalating."

He concludes: "It's also important to use the insurer's approved repairer network, where costs are controlled in comparison to non-approved repairs, and will allow the insurer to fit green parts, which helps the customers' claims experience, and will ultimately protect their premiums in the long term."

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 £16bn 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.