The stats: Hard market remains - but for how much longer?

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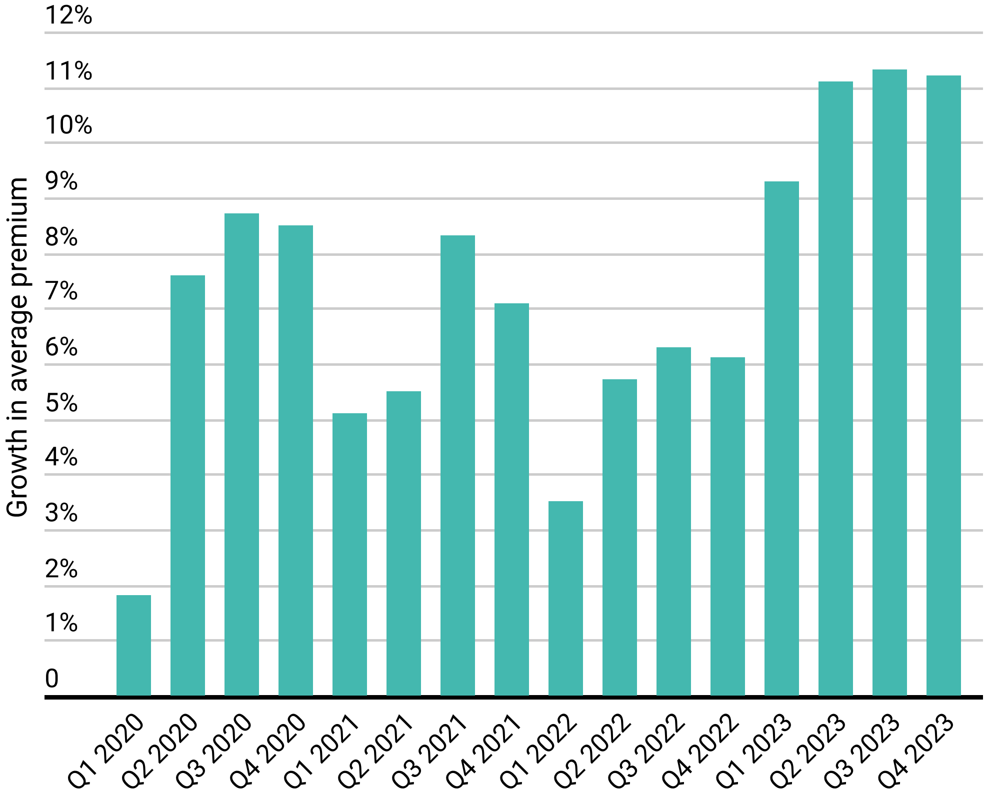
26 Feb 2024
Indicative reading time: **11 minutes**

Property and fleet rates remain stubbornly high as shown by the latest Q4 figures from the Acturis Commercial Lines Index, Rachel Gordon reports.

News that the UK's recession from the last two quarters of 2023 was mild is welcome and even more so that the economy is now showing signs of a tentative upturn.

Acturis Property Owners Index: Year-on-year comparatives by quarter



Source: Acturis

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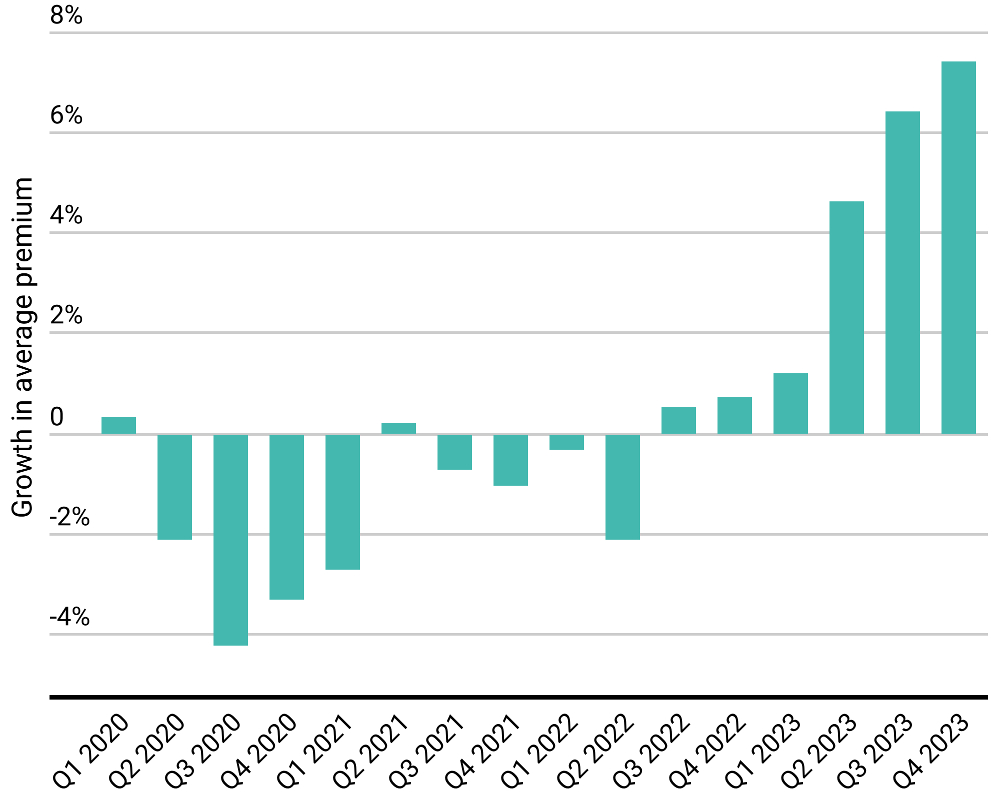
Acturis Fleet Index: Year-on-year comparatives by quarter



Source: Acturis

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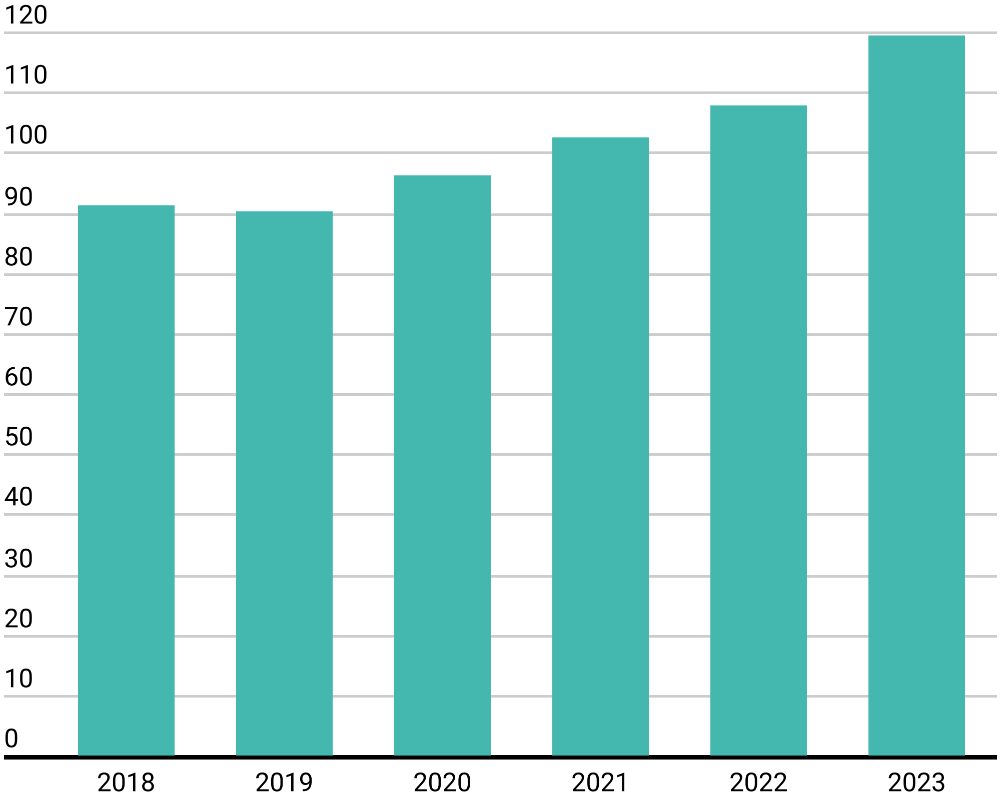
But certainly for buyers of property owners and fleet cover, there is little cheer or respite from steeply rising premiums.

The latest figures from Acturis for Q4 2023, show these two classes continue to spike sharply. Property owners went up by 11.2% in Q4, **while in Q3**, there was also an 11.3% rise. For fleet, there was a 7.4% hike in rates in Q4, 1% more than the previous quarter's increase of 6.4%.

Landlords under pressure

Acturis Property Owners Index: Year-on-year comparatives for average premium



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Source: Acturis

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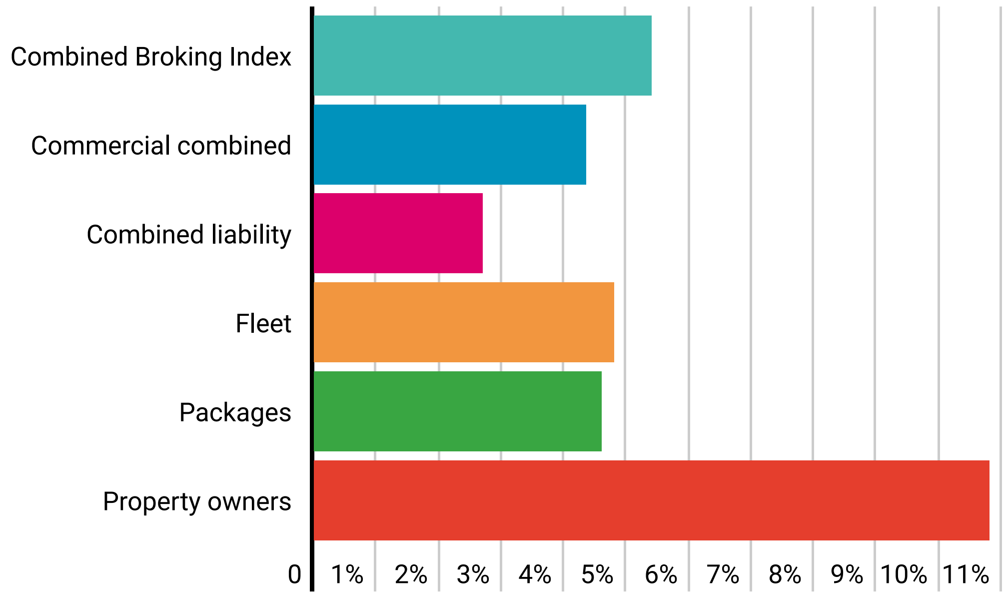
Acturis Commercial Broking Indices: Percentage growth in average premium 2022–23



Source: Acturis

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Property owners saw the largest movement in premium in 2023, with premiums in 2023 being 10.8% higher than in 2022.

This is because a swathe of negative influences are affecting commercial landlords and Darren Bee, associate director for Cheltenham-based Lansdown Insurance Brokers, says more clients are seeking advice from specialist property insurance brokers.

Backlogs have developed due to contractors being unable to complete work with the forced lockdowns. The result is building and repair works being extended and additional safety

procedures are now needed to protect all parties – these all come at a cost.

Darren Bee

"Over the last few years, insuring your block of flats or commercial property has become more challenging with an increasing amount of obstacles for clients to overcome and understand. This doesn't seem to be getting any easier."

He explains rate increases are connected to a number of factors, including, "properties flooding following the impact of climate change and redevelopment on previous flood plains".

He adds that following the Grenfell disaster, there remains a spotlight on properties with cladding and this has also pushed up prices as have problems with reinforced autoclaved aerated concrete (RAAC).

Bee adds: "Brexit and Covid are two further considerations for premium increases, meaning increased costs for building materials, coupled with the shortages of materials and a lack of experienced contractors are all key factors.

"Backlogs have developed due to contractors being unable to complete work with the forced lockdowns. The result is building and repair works being extended and additional safety procedures are now needed to protect all parties and these all come at a cost."

Eddie Ferrão, director of Langton London Insurance Brokers, agrees many factors are having an impact and that the sector is seeing more climate change-related events like floods, with claims becoming more frequent and severe. As such, he believes premiums will remain high in the near term.

Step outside the mainstream

Meanwhile, shrinking capacity means brokers who specialise in this area should have access to more markets. Ferrão comments there is a need to offer more than just access to the mainstream providers.

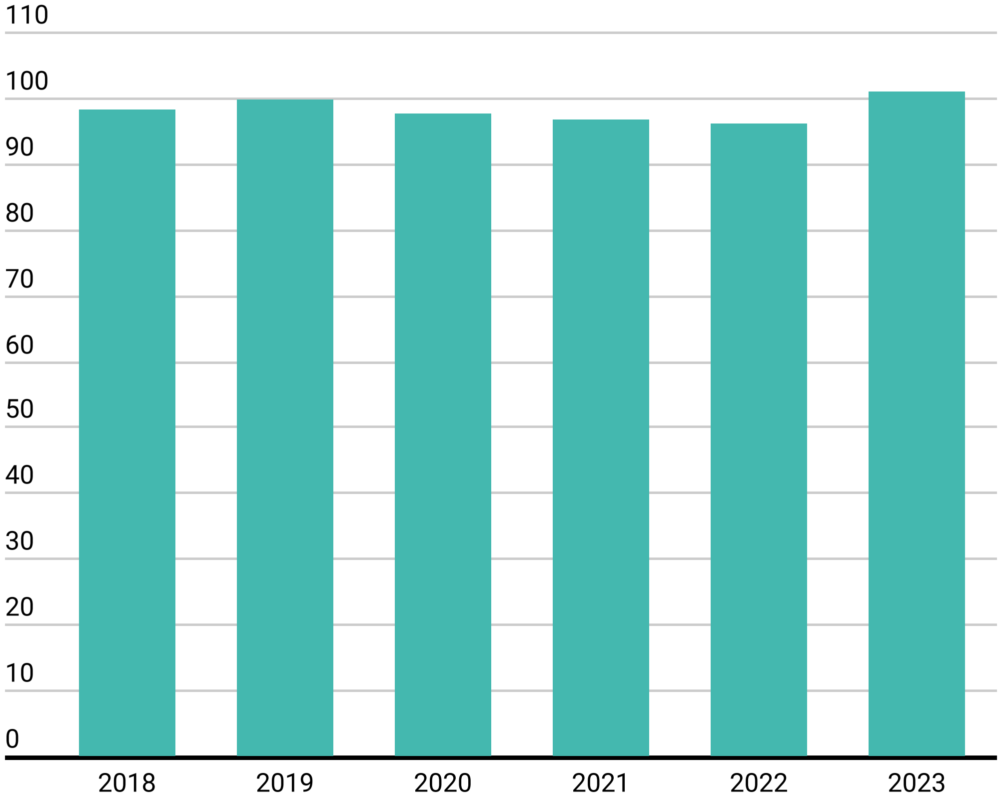
"With a portfolio spanning over 100 markets, including MGAs, we provide property owners with a diverse range of options tailored to their specific needs. This network ensures that clients have access to competitive rates and comprehensive coverage, even in challenging market conditions," he adds.

A further issue for leaseholders' premium woes has been the fact some brokers have been overcharging. Last year's **Financial Conduct Authority probe into leaseholder cover** found there had been excessive commission paid to landlords and managing agents. Between 2019 and 2022, the regulator found a rise of nearly 40% in blocks of flats' premiums and that brokers in its sample, which covered about a third of the market, had passed on £80.7m in payments or "kickbacks" or more than a third of total commissions.

Reforms are being introduced and brokers were told last April by the FCA to "immediately stop paying commissions to third parties (including property managing agents and freeholders) where they do not have appropriate justification and evidence for doing so in line with our rules on fair value".

Fleet on the move

Acturis Fleet Index: Year-on-year comparatives for average premium



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Source: Acturis

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Fewer vehicles on the road during the pandemic years caused premiums in the fleet index to flatten or fall in the three years prior to 2023. Broadly, the premium value stayed at the same level until 2022. However, fleet premiums have increased 4.9% in 2023.

The first quarter of 2023 saw only a small movement in premium when compared with Q1 2022. However, each quarter since has seen a larger movement compared with the same quarter in 2022 than the last. This culminated with the premium value in Q4 2023 being 7.4% larger than in Q4 2022.

Peter Smits, managing director of Ashbourne Insurance, which is based in Hertfordshire, says he believes there may be a gentle tailing off in terms of increases later this year. He said: “Don’t be surprised if this is accompanied by more terms and conditions, endorsement and warranties as insurers look to guard against future losses.”

He said: “I understand the desire for anyone to reduce their insurance costs, particularly during the current economic climate and there is no doubt the perfect storm of Brexit, a global pandemic and the war in Ukraine has impacted on the cost and availability of parts and labour, resulting in not only a delay in returning any vehicle to being roadworthy, but also an impact on the premium paid.”

Smits adds independent brokers remain the best advocates for clients and are best placed to conduct a thorough search of all available markets and he says clients should also be mindful of the variation between policies. He emphasises cheap premiums can well result in poor service and onerous conditions.

Some clients may be under the impression that if they seek quotes from a number of brokers, then a cheaper quote could be obtained. But as Smits says, using multiple brokers at renewal may backfire. He said: “In our experience, this can result in some insurers refusing to quote, reducing the panel and therefore increasing the premium.

“Underwriters want reassurances that any work they do could result in securing the business.”

Misguided strategy

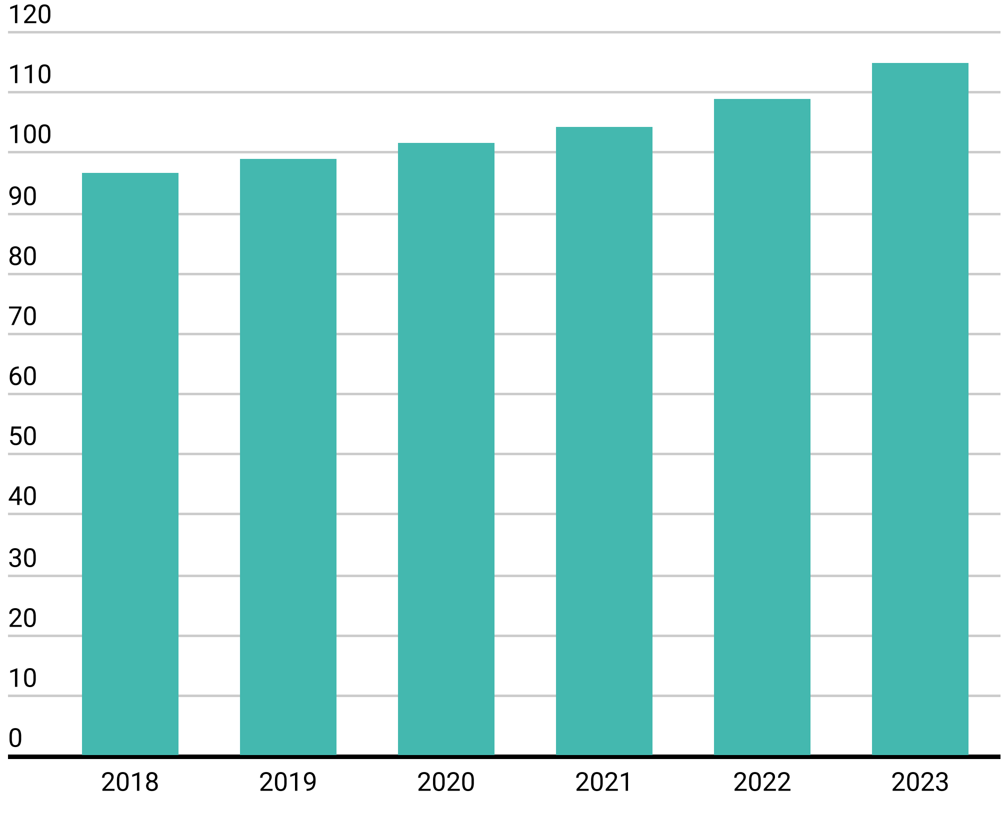
He adds that “jumping ship from insurer to insurer” can also be a misguided strategy and his advice to clients is: “Continuity can help secure long-term savings, just make sure your broker, while approaching a variety of insurance markets, always gives the holding insurer the chance to match any better rate.”

Smits says: “Like multiple presentations, most insurers won’t quote or provide their best rate if they can see three different insurers on cover in the past three years."

He adds that in the case of a larger fleet, brokers should also provide clients with a quarterly update on claims and incidents to help identify any patterns for vehicles or drivers that can be acted on promptly. He says it is claims frequency that can be most problematic. He said: "It is often said that one large claim can be written off as an exception, however frequent low value claims can indicate a lack of care and attention."

Cause for optimism?

Acturis Commercial Broking Index: Year-on-year comparatives for average premium



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Source: Acturis

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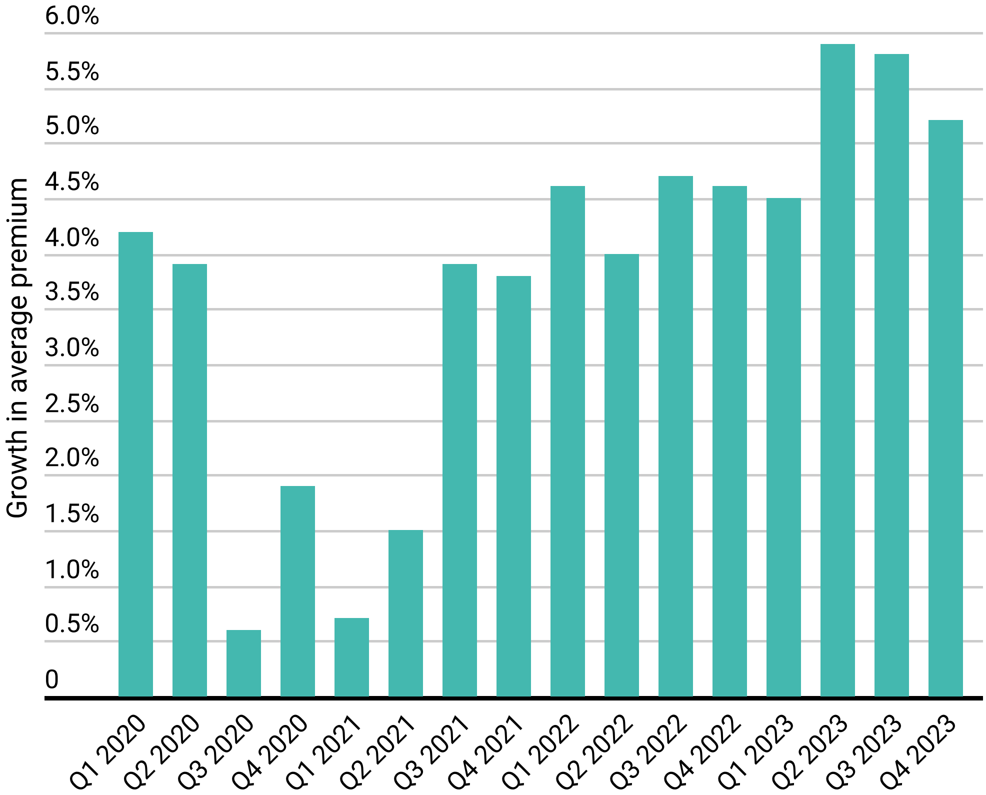
Acturis Commercial Broking Index: Year-on-year comparatives by quarter



Source: Acturis

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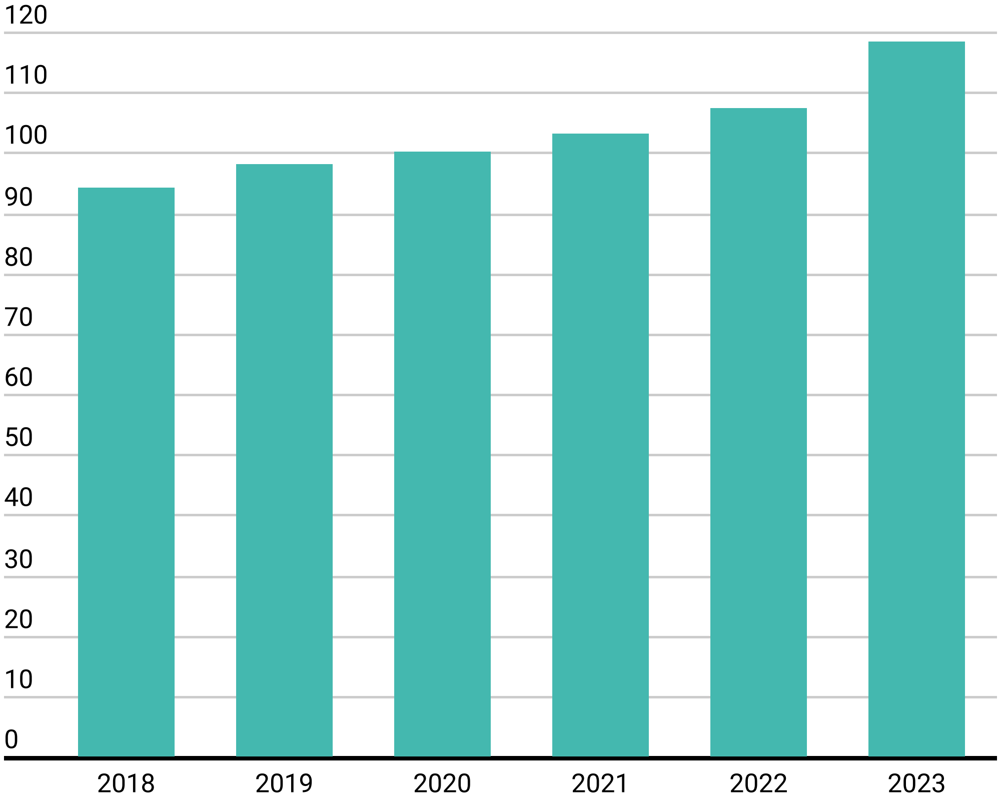
More broadly, the statistics show all business classes rose in the Acturis Commercial Broking Index, which makes grim reading for brokers and their clients.
Indeed, the 2023 value of the index is 5.4% higher than in 2022 and there are premium increases across all lines – the index covers commercial combined, liability, fleet, packages, property owners and tradesman, representing the average premium in a typical book of business.

Quarterly comparisons show premium increases have been consistent throughout the year, with premiums each quarter in 2023 rising at least 4.5% compared with the equivalent quarter in 2022. This trend started in mid-2021, and has continued throughout the last two and a half years.

Acturis Commercial Combined Index: Year-on-year comparatives for average premium



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Source: Acturis

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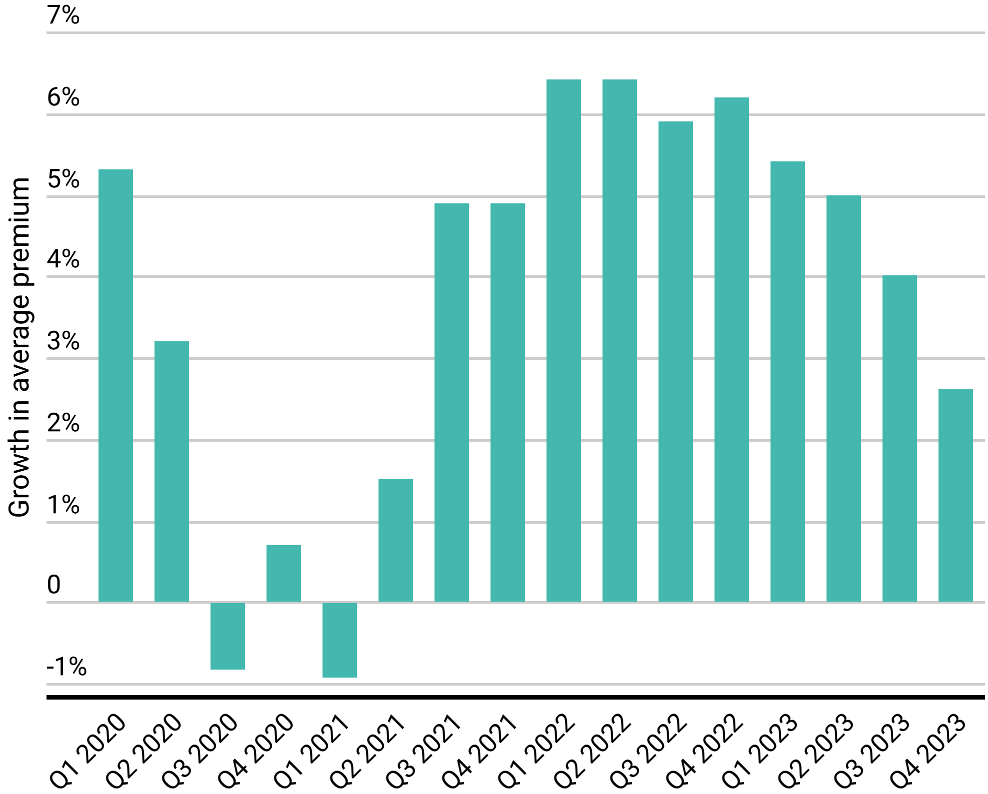
Acturis Commercial Combined Index: Year-on-year comparatives by quarter



Source: Acturis

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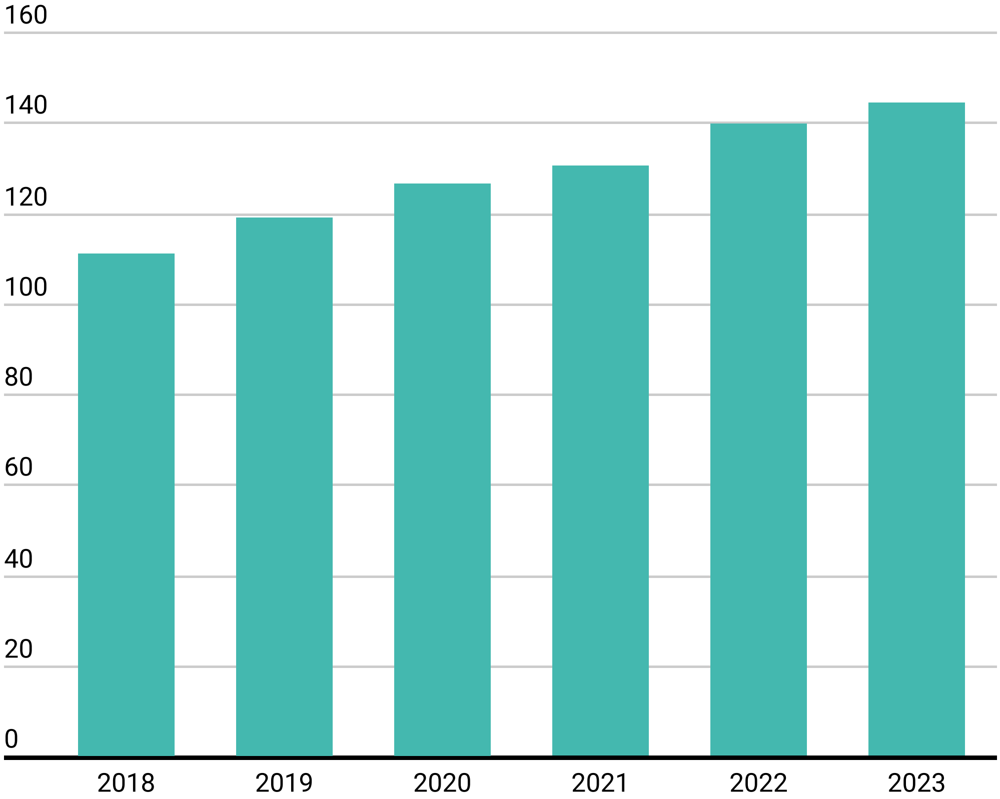
However, some of the rises are smaller than in the previous quarters. Commercial combined, for example, only saw a 2.6% rise in Q4 compared to 4% in Q3.

Acturis Combined Liability Index: Year-on-year comparatives for average premium



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Source: Acturis

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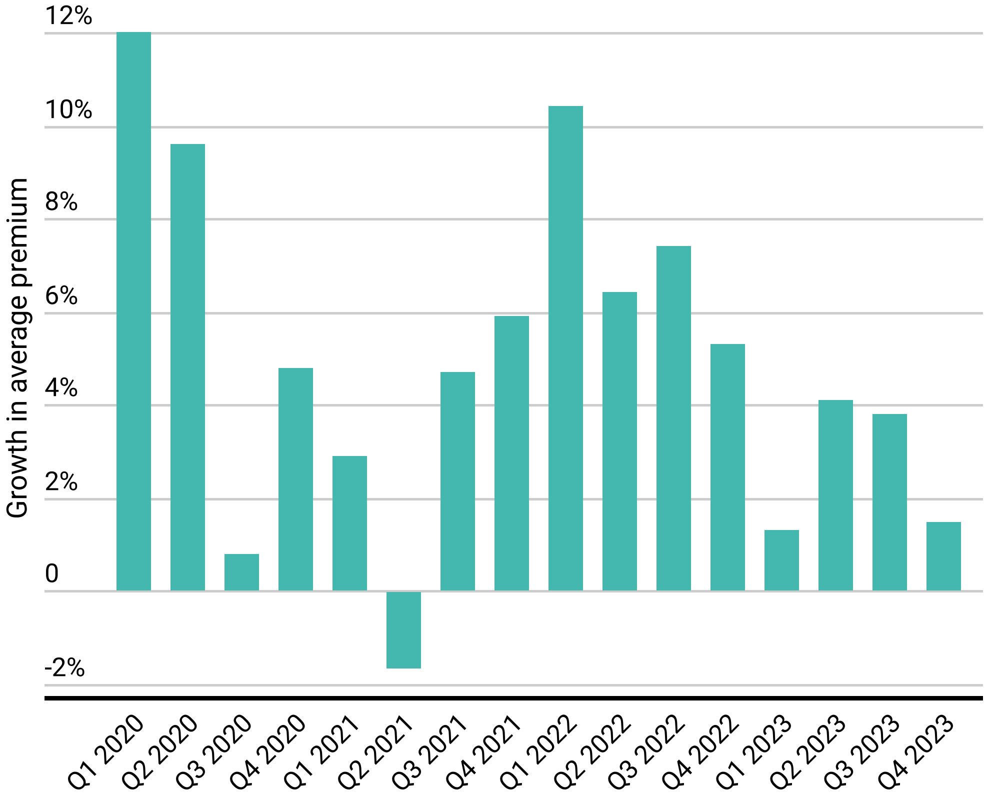
Acturis Combined Liability Index: Year-on-year comparatives by quarter



Source: Acturis

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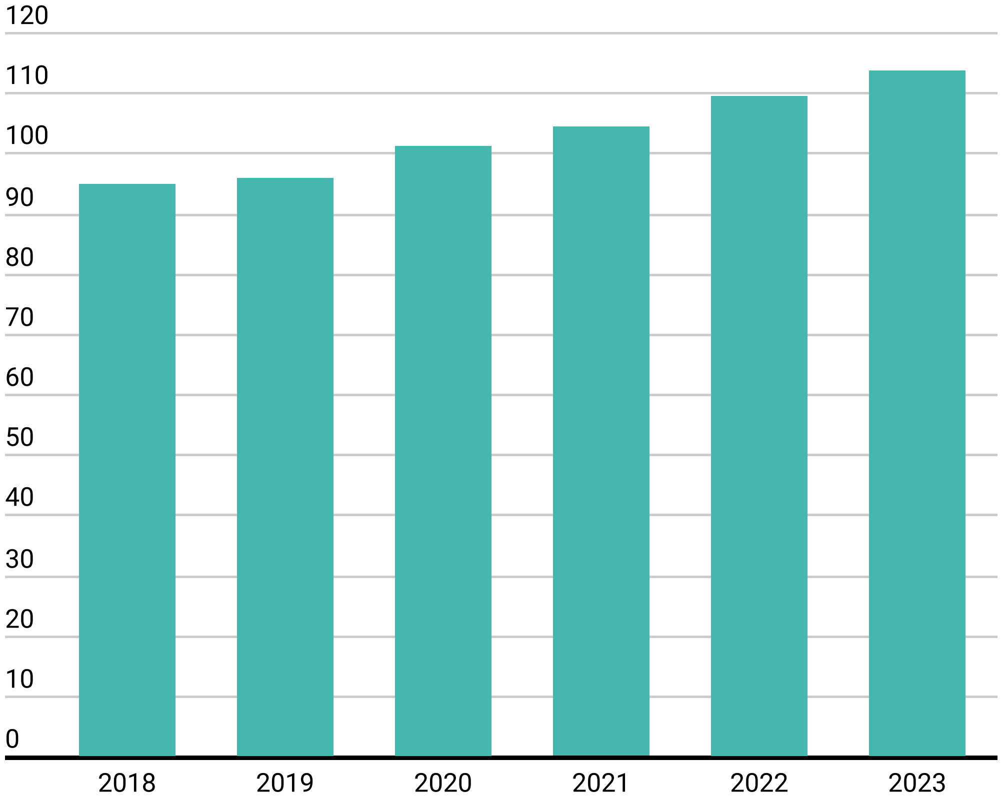
Liability rates, in particular, also appear more stable and show smallest movement of all the classes – this is in contrast to previous years, where combined liability premiums have been the largest movers. The Q4 rise was 1.5% compared with 3.8% in Q3 and Acturis points out this is notable, as as in past years, growth in this class of business has outpaced other classes by some distance.

Acturis Packages Index: Year-on-year comparatives for average premium



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Source: Acturis

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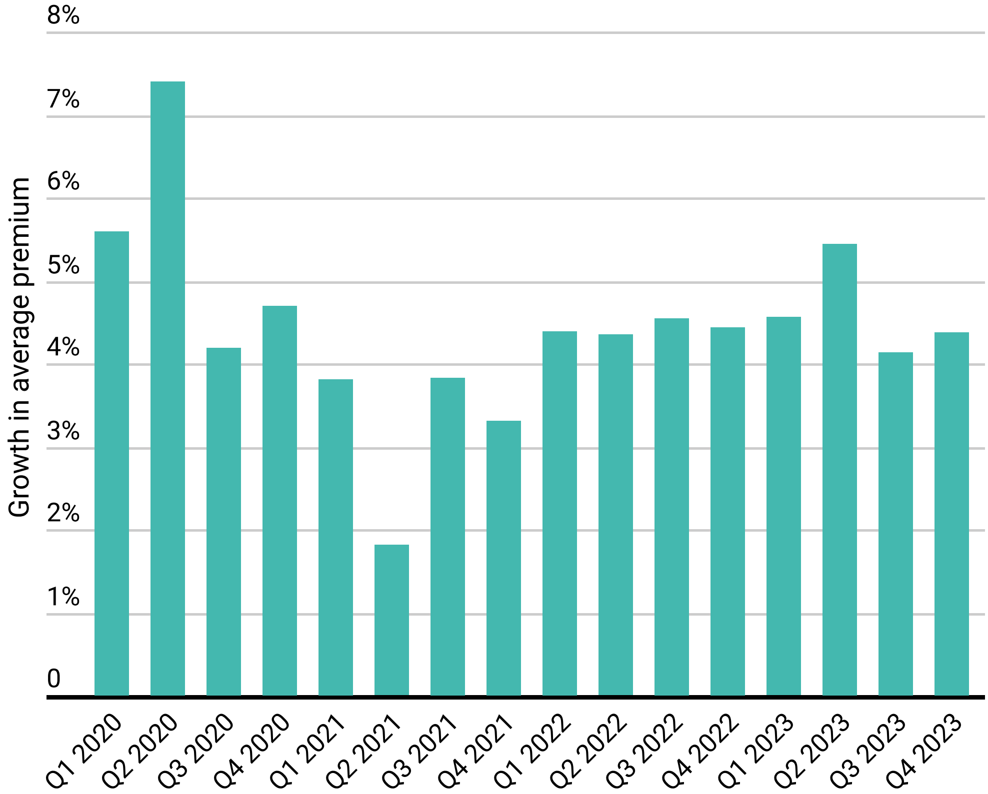
Acturis Packages Index: Year-on-year comparatives by quarter



Source: Acturis

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The current hard market may appear entrenched but countless insurance cycles have shown this is never the case. There are additional factors beyond inflation why property and fleet premiums remain so costly. But elsewhere, while it may be too early to say for sure that softer times are coming, optimists may believe we are at the top or at least nearing it.

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.