The stats: Q2 2024 – Commercial combined and combined liability premiums fall for first time in three years

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The smallest index movement since Q2 2021 suggests the commercial lines market is starting to become more competitive again, as Ida Axling reports.

Average commercial lines premiums have continued to rise in the second quarter of 2024, but the rate of growth is showing signs of slowing down, according to the latest Commercial Broking Index from Acturis.

The value of the index, which represents the average premium in a typical commercial book of business, has increased by 3.1% compared with the same quarter in 2023.

Acturis Commercial Broking Index: Year-on-year comparatives by quarter (% growth in average premium)

Source: Acturis

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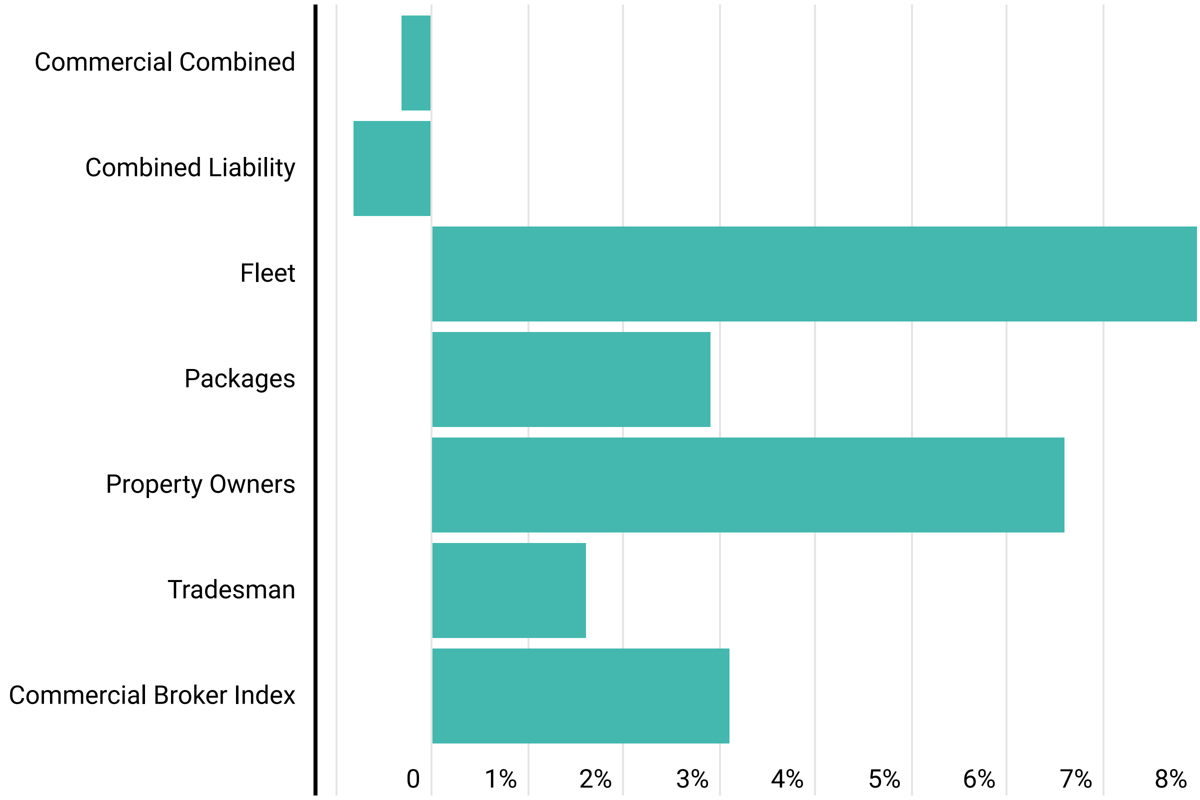
However, while it has continued to rise steadily for the last few years, this is the smallest movement that has been reported in the index since Q2 2021, suggesting the commercial lines market is starting to become more competitive again, at least in certain areas.

Negative movements

In line with Q1 2024, the fleet and property owners classes of business have seen the biggest upwards movements, with the largest increase to date reported in fleet. But arguably the most interesting figures were reported in commercial combined and combined liability, where premium shifts have turned negative for the first time since early 2021.

Acturis Indices: Year-on-year comparatives by quarter (% growth in average premium)



Source: Acturis

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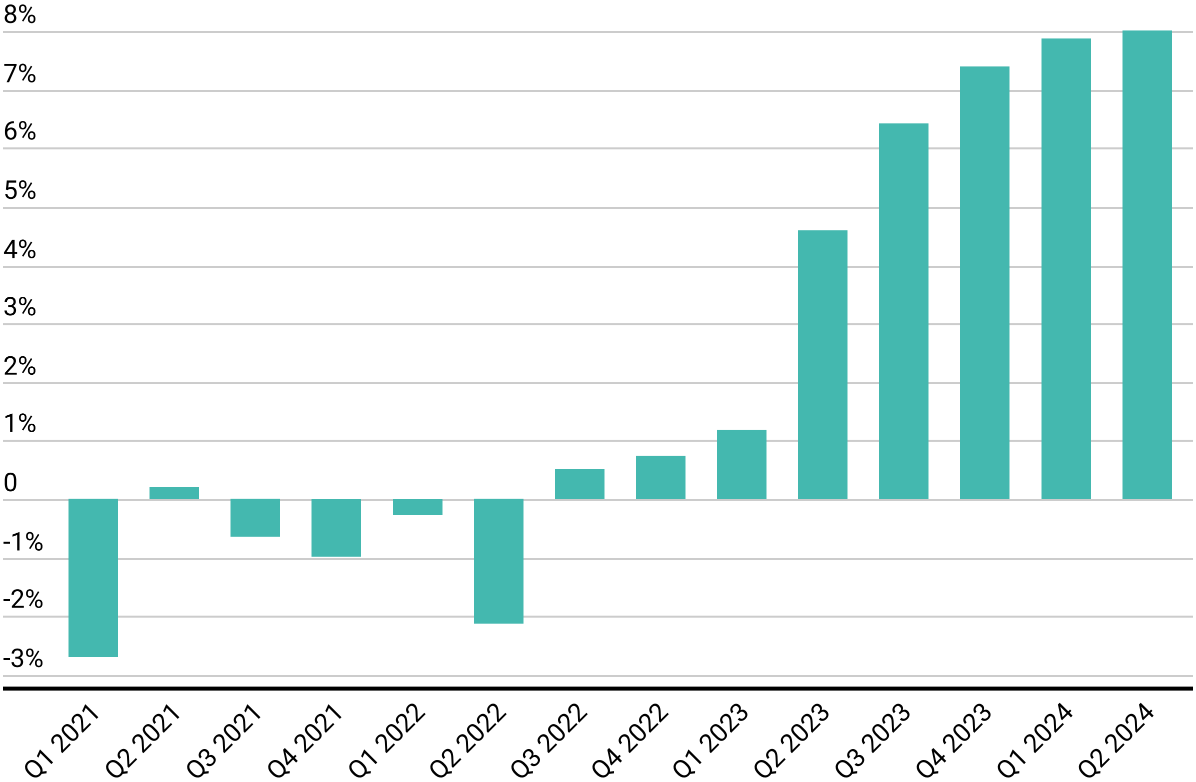
While the other product lines have continued on their positive trajectories, the software house noted that it was seeing “signs that the rate of growth is slowing in each class of business, with the exception of fleet”.

Zeroing in on each class of business individually, fleet grew by 8% year-on-year, following a bit of a growth spurt over the last four quarters. Fleet is the second most weighted category in the index after commercial combined, and makes up 25% of a typical broker’s book.

Acturis Fleet Index: Year-on-year comparatives by quarter (% growth in average premium)



Source: Acturis

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Claims inflation

Katie Freemantle, managing director at SME specialist FSB Insurance Service, said premium increases in fleet had been driven by claims inflation, mainly from the delays and high costs of replacement parts.

“I don’t know whether that is legitimately from a backlog of Covid still, or accessibility after Brexit, but we’re definitely seeing that the claims are being impacted there and that’s obviously increasing premium,” she continued.

Poor claims ratios have also resulted in a number of insurers pulling out of the fleet market, with some specialist schemes providers struggling to secure capacity.

"Unfortunately, a reduced market means those who are left have the play of the field and can price how they feel suitable, because there's not actually much competition, not as many providers are after fleet business," Freemantle added.

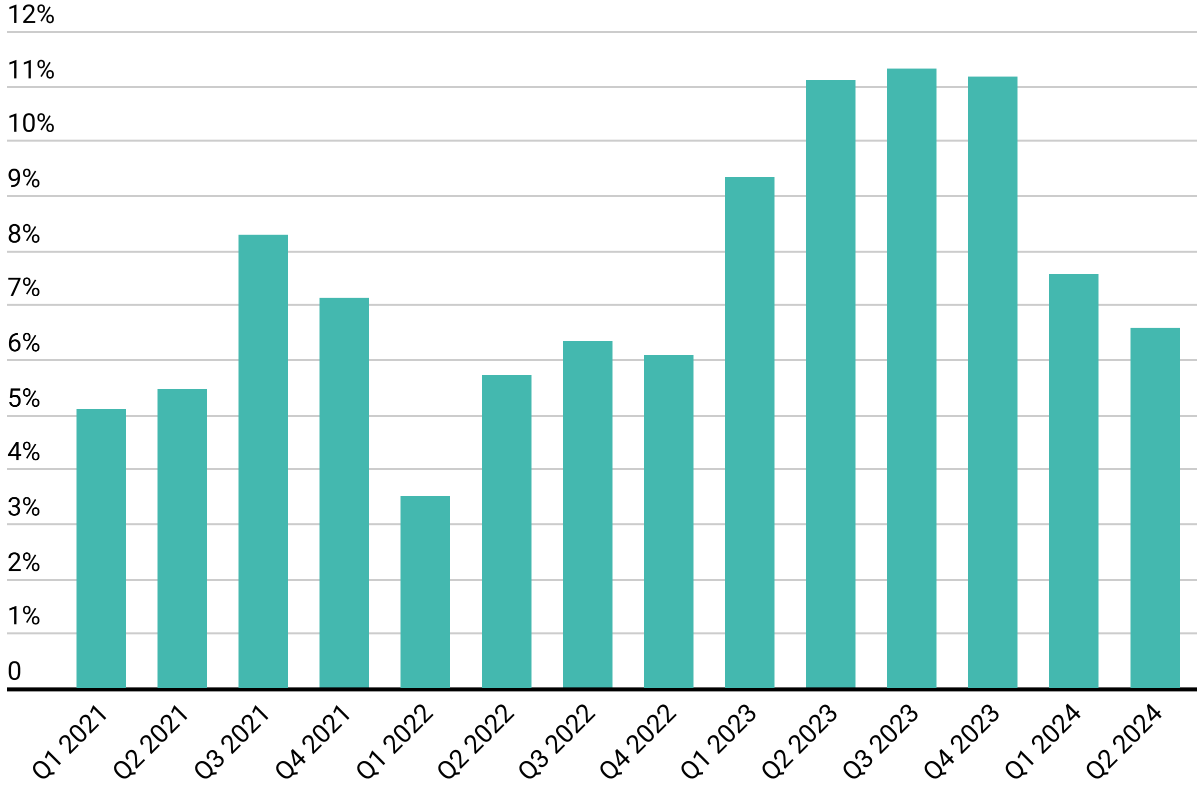
Giuseppe Barone, head of placement, SME and personal lines at Gallagher, agreed that claims inflation was having an impact on premium movements in most classes of business, including when it comes to costs of repair, supply chain issues and the general increase in the cost of materials.

"The fleet market in particular has seen a hardening which is also driven by claims inflation," he added.

Property owners

Meanwhile, property owners saw the second largest increase this quarter, edging up by 6.6% compared with Q2 2023. This is however the smallest movement recorded in property owners since 2022, which suggests the rate of premium growth is starting to cool.

Acturis Property Owners Index: Year-on-year comparatives by quarter (% growth in average premium)



Source: Acturis

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Chris Withers, schemes and partnerships director at Ecclesiastical, said he was a little bit surprised by this increase, stating: “I wonder if this could be down to higher rates being applied on residential properties than commercial owing to the different types of losses rather than a general product-wide market trend.”

Meanwhile, Freemantle noted that large escape of water claims had been pushing up prices in property owners. She added that she had also seen high increases in excesses and a rise in the number of exclusions being written into policies.

“Property owners can be quite a tricky one at the moment, and especially with limitations on tenants being more stringent, which we understand,

and certain trades occupying the properties making it a little bit harder, and that's impacting price as well," Freemantle continued.

In addition, Barone highlighted that brokers are currently "focused on tackling the underinsurance issue", and added: "This may mean reinstated values which in turn drives an increase in premium, particularly in the property space."

Packages

Moving on to packages, average premiums in this product line have risen by 2.9% year-on-year, dipping below a 4% increase for the first time since late 2021.

Acturis Packages Index: Year-on-year comparatives by quarter (% growth in average premium)

Source: Acturis

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With package policies containing both property and liability covers, Acturis stated this class of business had been expected to follow the trends seen in property owners and combined liability, and indicated that a more modest level of growth was therefore unsurprising.

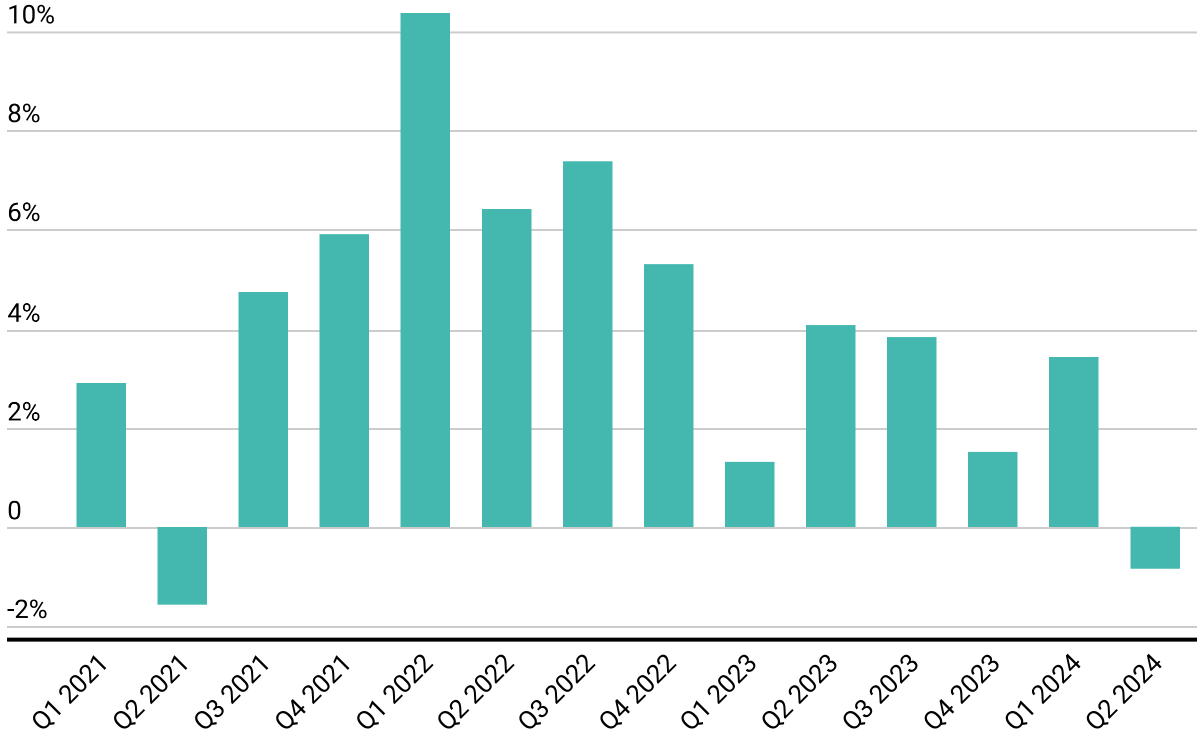
Experts agreed that this was in line with what they are seeing in the market, with Freemantle adding that she wouldn't be surprised if small businesses such as shops were contributing to the increases due to the volume of claims from slips, trips and falls, as well as break-ins and malicious damage experienced by shop owners.

"The riots that have happened in the last couple of weeks won't have helped either, we've seen a lot of window breakages, so it's not a surprise, but a lot of this is unfortunately claims led and insurers having to cover their losses," Freemantle continued.

Negative movements

Turning to the negative movers, combined liability fell by 0.8% compared with Q2 2023, its first dip below zero since Q2 2021. However, after a larger boost across all four quarters in 2022, premium growth in combined liability had been showing signs of tailing off since last year.

Acturis Combined Liability Index: Year-on-year comparatives by quarter (% growth in average premium)



Source: Acturis

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And finally, commercial combined was the most highly weighted class of business in the index at 35%.

It fell by 0.3% compared with the same quarter in 2023. It had previously seen consistent growth of around 5% or more between Q3 2021 and Q2 2023, with movements reducing steadily since the second quarter of last year.

Acturis Commercial Combined Index: Year-on-year comparatives by quarter (% growth in average premium)

Source: Acturis

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Freemantle noted that both combined liability and commercial combined were becoming more competitive, with more insurers coming in to play on the SME end in these markets, particularly in commercial combined.

She said: “We’re also finding with e-trade, that quite a few of the composites are now introducing their small mid-market teams, where they have the flexibility to do e-trade-sized premium risks internally, whereas previously it might have been a too-small risk for their minimum.”

Barone was also unsurprised by the negative movements. He said: “Within commercial combined and combined liability, particularly the latter, we are seeing a softening.”

Looking at the index as a whole, experts told *Insurance Age* that the reported premium movements were generally in line with what they were experiencing in the market at the moment.

“My observation is that rate is still being carried across most lines and there is a general acceptance of the need for this to continue to track against claims inflation,” Withers said.

Different dynamics

Speaking of claims inflation, he noted that this “continues to be a factor in the positive rate movement”, and added: “Different product lines have different dynamics, so clearly there is a lot of thought going into the rating action sector by sector, rather than a blanket approach.”

This point was echoed by Barone, who said that overall in the SME sector, rate and premium strength “largely varies depending on the insurer and the specific product”.

He added: “Insurer pricing response to Covid was also a contributing factor to the pricing adequacy of their portfolio. In the main, most insurers have been consistent in applying rate albeit some exceptions remain.”

Asked what they predict will happen in the coming months, experts said they expected to see more of the same, with premiums continuing to grow, but at a slower rate.

According to Barone, underinsurance and claims inflation remains a constant challenge for brokers and will continue to have an impact on the market.

He stated: “In addition to this, regulation – for instance the Consumer Duty – presents an additional layer of challenge as insurers and brokers further embed its principles. This may lead to a review of their appetite and a potential re-positioning in the SME space.”

Competition coming back

Freemantle said she was hearing people in the industry talking about the market softening again.

“So we’re hoping to see more competition coming back, but I’m not predicting much change from what we’ve been seeing recently, as insurers do tend to change appetite frequently,” she continued.

However, Freemantle also pointed out that the world is an “unpredictable place” and highlighted cyber attacks, and their potential to bring everything to a halt, as a big concern for the insurance sector going forward.

Finally, Withers declined to make any predictions, but set out that there was generally “an increased awareness that customers are still facing economic challenges and brokers and insurers have to work together to offer a solution that is appropriate and offers value”.

He said: “If we’ve seen anything in the last few years it’s that expecting the unexpected is the best course of action.”

Withers concluded: “What I would say is that it’s vital to keep customers informed on any new developments, sharing emerging risks and helping them to respond to these and grow in the process.”

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%) indexes based on the portion of GWP each class of business represents in a typical commercial book.

> The further indexes 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.

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