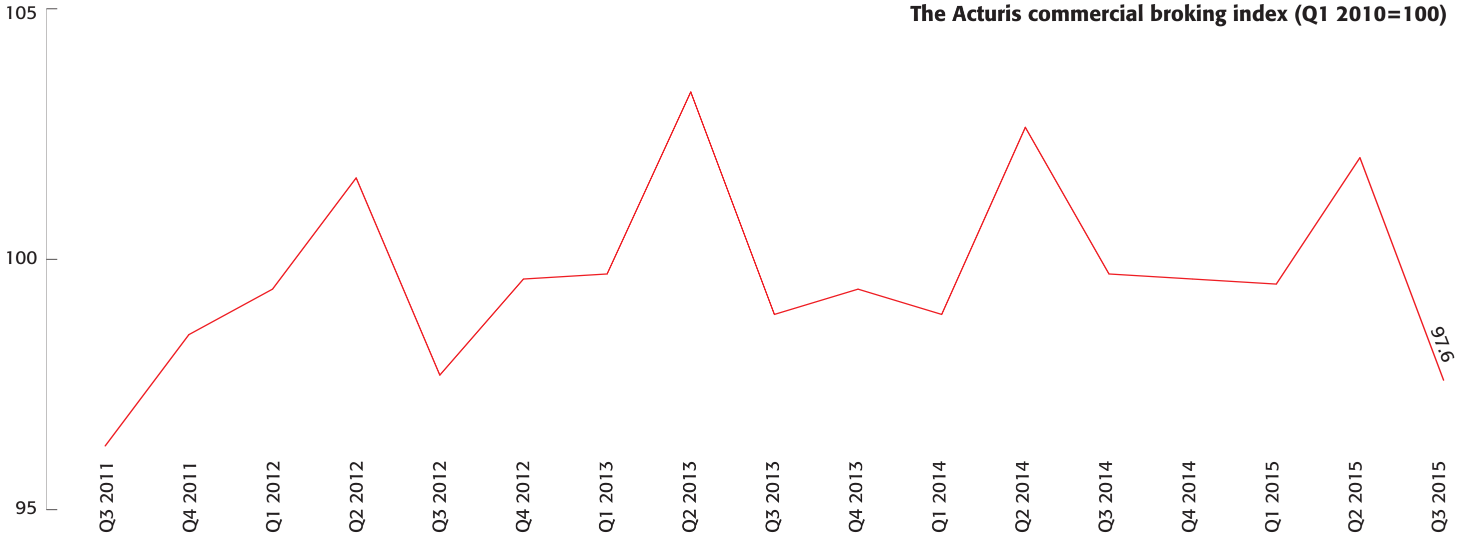
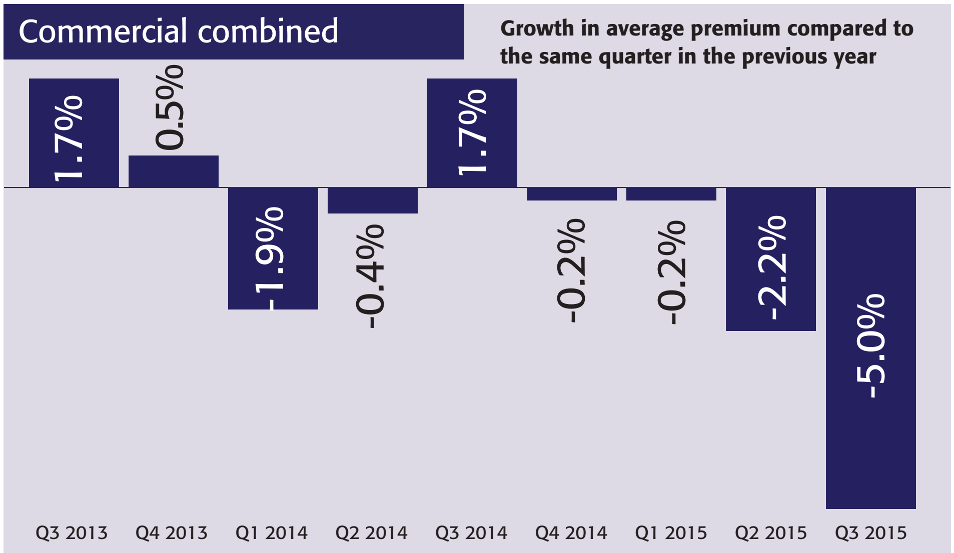
THE STATS – THE ACTURIS PREMIUM INDEX





● As winter approaches, the world of commercial insurance has already experienced a relatively cold and dark period. Average premiums in commercial combined, commercial vehicle, packages, property owners and combined liability all declined in the third quarter compared to the same period of 2014.

And worse still is the fact that the overall basket of risks, as measured by the Acturis commercial broking index (see box), reported the biggest year-on-year fall since it was created.

Measuring the average premium movements across key lines in a typical broker's book of business, the commercial broking index was down 2% for the three months to the end of September (see graph above). According to the software house the fall was driven by a large 5% decrease in the most heavily weighted product class of the index, commercial combined.

Compared to the baseline – the first quarter of 2010 – the commercial broking index dipped below 100.0 and ended up at 97.6. This is the lowest result since the third quarter of 2011.

Only the fleet and tradesman lines saw positive movements between the third quarters of last year and this.

The movements in premium can be driven by changes in the size of the risk and the level of the insurance rate. The data from Acturis incorporates both factors. Comparing Q3 2015 with Q3 2014 is part of an effort to compare like-for-like risks rather than the movement between consecutive quarters.

The time has come to look at all of the lines individually. Let's start with commercial combined and that 5% drop. This is the fourth consecutive quarter of falls in this line, which has only seen one positive quarter since the start of 2014. It came in at 96.3 compared to the baseline.

According to Les Brewin, managing director of Purple Partnership, the market for commercial combined business is competitive.

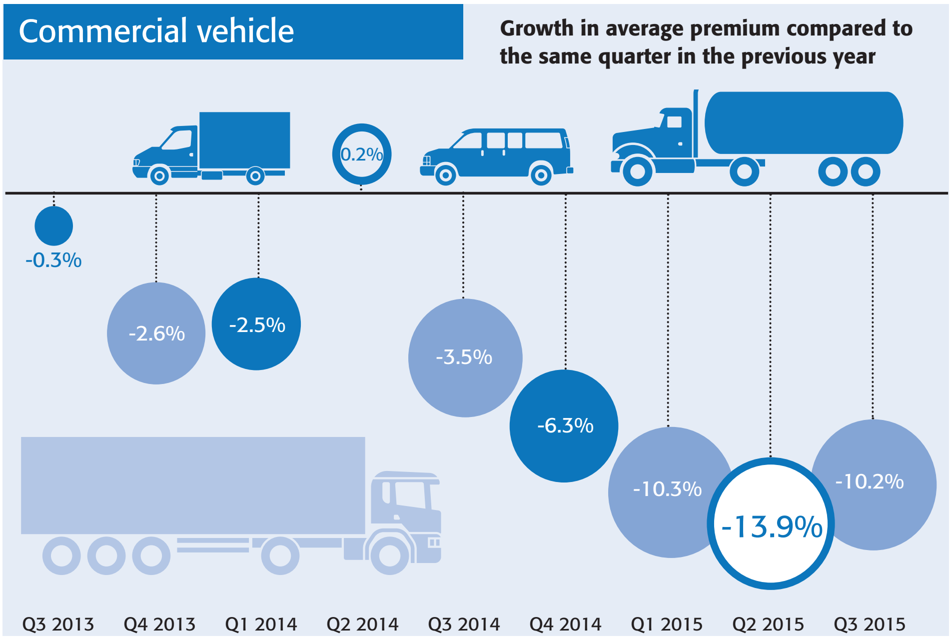
"It comes as no surprise that the combined rates are depressed," Brewin said.

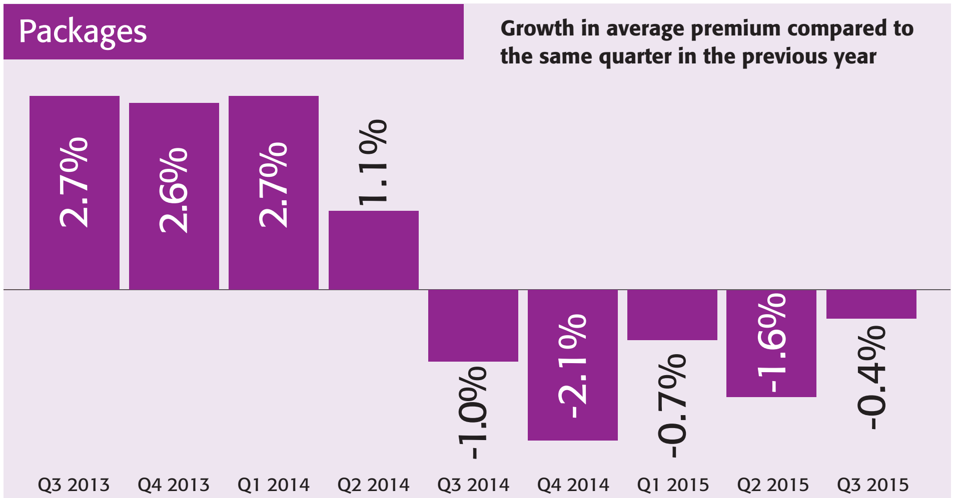
Meanwhile commercial vehicle saw a large reduction for the third consecutive time. It decreased 10.2% compared to the third quarter of 2014 and apart from a tiny upward movement in Q2 2014 has been down every quarter since the end of 2012. However, it managed to stay above the baseline at 108.1. ▹

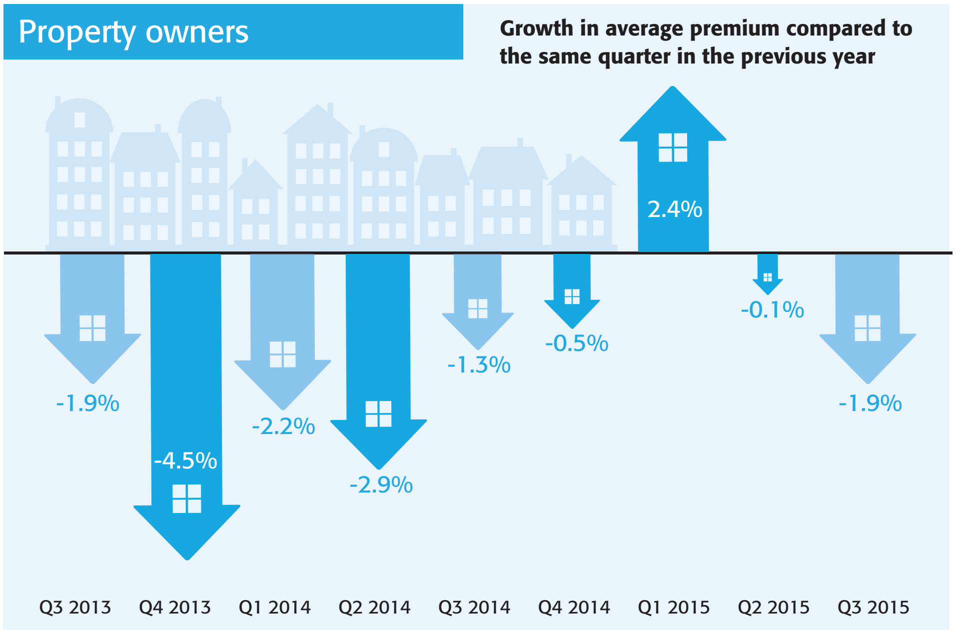
Explaining the figures

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 by quarter. 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.







Mark Bacon, active underwriter at specialist motor insurer ERS, deemed the figures credible and noted he had seen a similar movement in the market.

"It has falling rates and increasing claims inflation and frequency which is a poor combination for insurers," he said. "We need to see a reversal of the trend."

In addition, the packages line fell by 0.4% for the quarter and has seen negative movements since Q3 2014. It still hovers above the baseline at 103.6.

Brewin highlighted that both packages and property owners were "hugely competitive" lines and that "everybody wants packages".

"I'm not surprised it's hard for insurers to harden rates," he said. "The competition for good packages business is very strong."

Brewin added that there was plenty of capacity in the market, particularly within packages and property.

Thus the fact that property owners fell this quarter probably did not surprise anyone. It has been declining for the last two years, apart from a one-off upswing in the first quarter of this year. In Q3 it was down 1.9% and can be found far below the baseline at 89.0, which is the lowest figure of all lines. It has not been above the baseline since the second quarter of 2013.

"It's not easy to carry rates increases for packages and property," Brewin added. "I think the growth of managing general agents in the insurance sector has led to a more competitive market."

Meanwhile, Cathy Taylor, head of commercial underwriting and operations at Ageas, added that the property owners line could be affected by weather going forward.

"It's been an unusually good year weather-wise, but there is a storm brewing now so it will be interesting to see if that has an impact," she said.

Combined liability fell by 0.6% which, unlike the results for property owners, did come as a surprise to some experts in the market. This line has previously enjoyed positive movements since the third quarter of 2012 and stands at 106.8 compared to the baseline.

"The only real surprise is that the liability line is moving down after a period of growth," said Simon Henderson, managing director of Darwin Clayton. "I would have expected growth to continue as the UK construction sector continues to recover."

Moving on to the positives, the fleet line increased by 0.7% for this year-on-year quarter. However, it has declined compared to the first quarter of 2010 and sits below the baseline at 99.2.

Bacon said he believed that rates in fleet were actually decreasing, while the market had seen both claims inflation and increased vehicle usage.

"Claims cost more, rates are down and the combined effect is deteriorating results for insurers," he argued. "I'm not sure the market adequately reflects the claims inflation."

Bacon added that current low petrol prices had led to an increase in the number of people driving cars. "But when vehicle usage increases accidents increase as well," he continued. "We're sort of in a perfect storm scenario where claims cost more and rates decline."

Taylor on the other hand said that fleet had been fairly benign lately.

"There has been a straight line of growth for the customers," she said. "But it will be interesting to see the impact of vehicle surveillance in fleet. The technology is cheap now and almost all vehicles have on-board cameras."

On to the final line and tradesman has been rising since the start of 2012. The third quarter of 2015 was no exception. It increased by 3.4% compared to the same quarter last year and is at 111.4 compared to the baseline.

However, Brewin was surprised by Acturis' numbers and said: "You can do business online easily in tradesman, I would have thought that would depress prices."

All in all, despite a few surprises, the experts *Insurance Age* spoke to seemed to largely agree with the movements reported in the indices.

Commenting on the situation overall, Henderson said: "Capacity remains available and competition continues to be fierce, hence the decline in premiums across most product lines."

Looking toward the rest of the year and 2016, none of the experts expected there would be any major changes to the market overall. Henderson noted: "As long as insurers continue to deliver the right combined operating ratios and their appetite to grow continues, I can't see rates hardening in the immediate future."

However Bacon did predict there would be a correction in pricing in the motor sector in 2016.

"What we see in the market for motor is that retail rate changes are leading the cycle," he said. "Commercial rates generally follow the same pattern about a year or a year and a half later."

He added: "In retail we started seeing hardening last year so I think we will see commercial motor rates harden next year."

One factor that could yet play out in 2016 across the market is the effect of the rise in Insurance Premium Tax. But Taylor concluded: "It will take a major event to change things and right now I'm not seeing that it will happen." ■