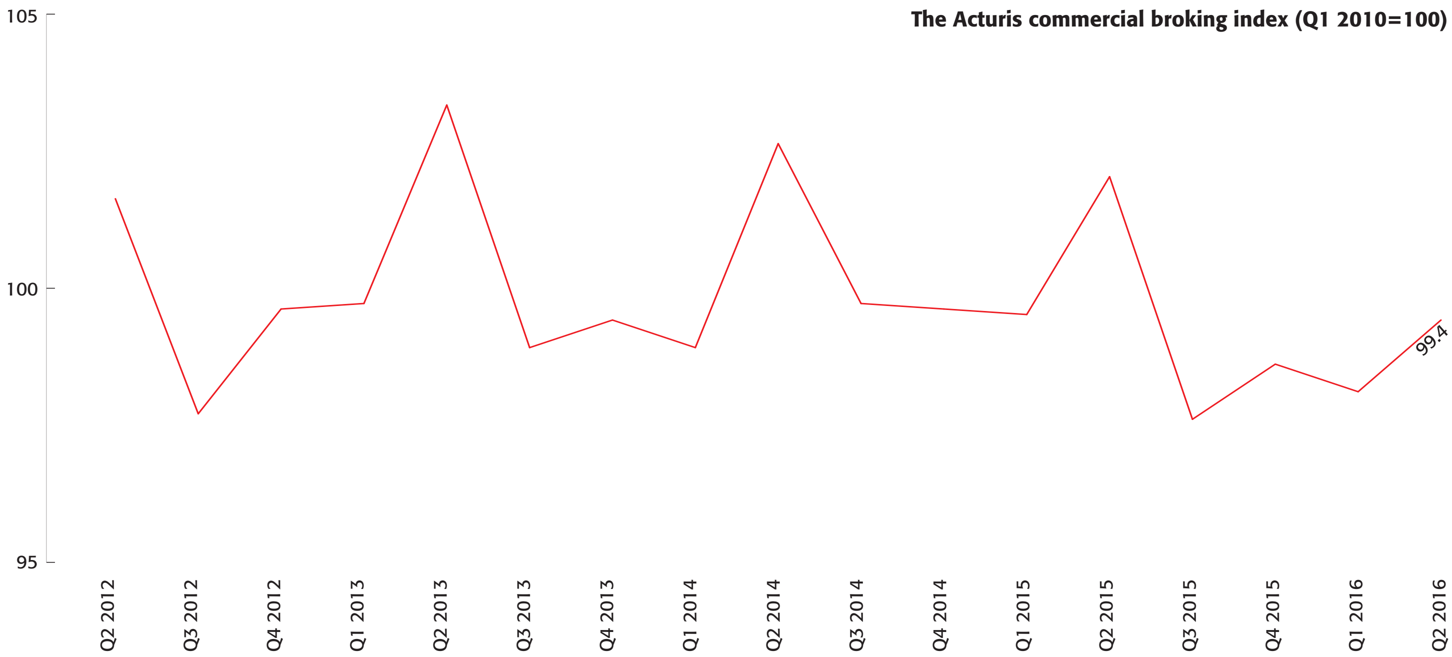
THE STATS – THE ACTURIS PREMIUM INDEX

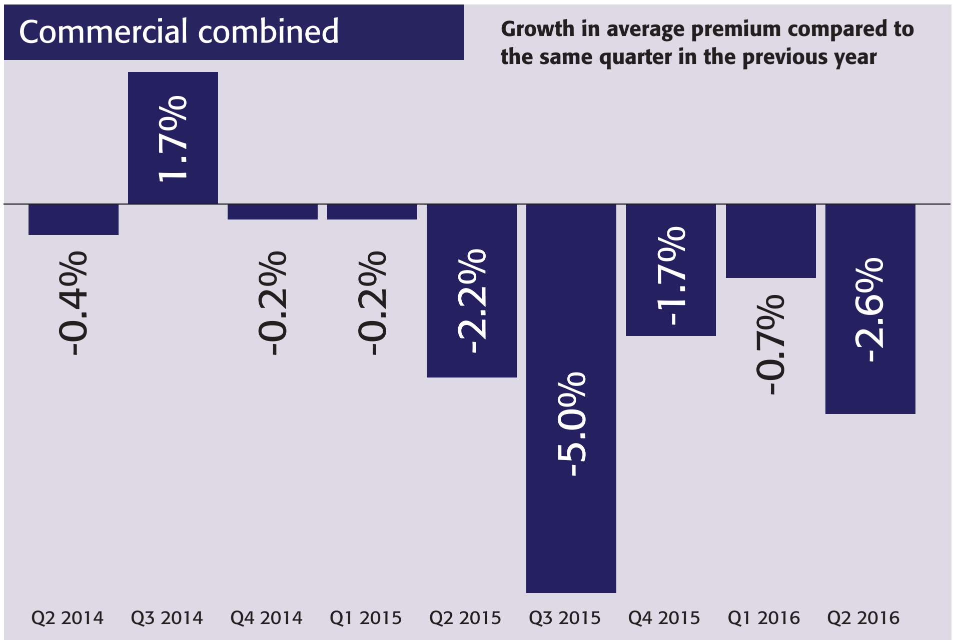


● The latest Acturis Premium Index showed an unusually negative second quarter of the year, with most business lines on the decline. Compared to the same quarter last year the commercial combined, combined liability, fleet, packages and property owners lines all fell, while the only positive movements were recorded in commercial vehicle and tradesman.

The Acturis Commercial Broking Index is a weighted measure of average premium movements across key lines in a typical broker's book of business (see box below right). Historically the second quarter is a relatively strong, or at least stable, one. The index, which started in the first quarter of 2010, was down 2.6% (see graph above) and landed at 99.4 compared to the baseline figure of 100.0. This is the first time since 2010 that it has dropped below the baseline in the second quarter of the year which will certainly be a worrying development for all brokers.

Moving on to look at the individual lines, let's start with the negatives and commercial combined. This business line has been heading downwards since Q4 2014 and in the second quarter of 2016 it fell 2.6% compared to the same period last year. It can now be found below the baseline at 97.4.

According to Dave Greaves, head of commercial SME at QBE, commercial combined follows a similar line to property owners and has been targeted by the floods at the beginning of the year. "It's one of the biggest portfolios in the UK and insurers are keen to maintain their presence in there, so we'll see a continuing focus in this area," he noted. ▹



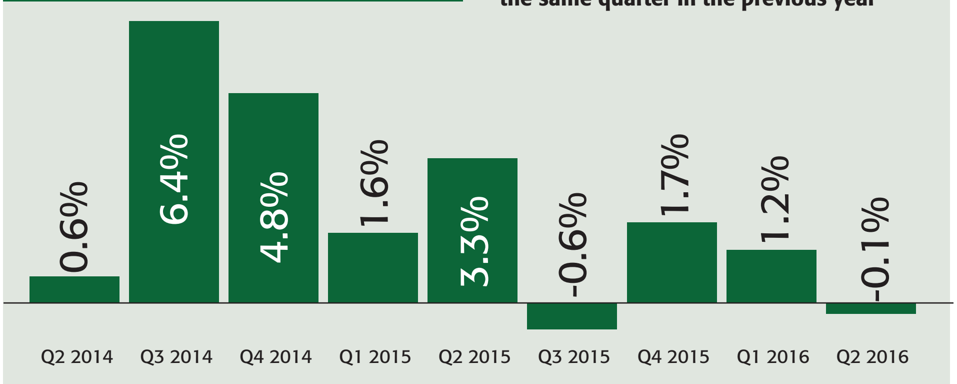
Explaining the figures

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 £5bn 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.

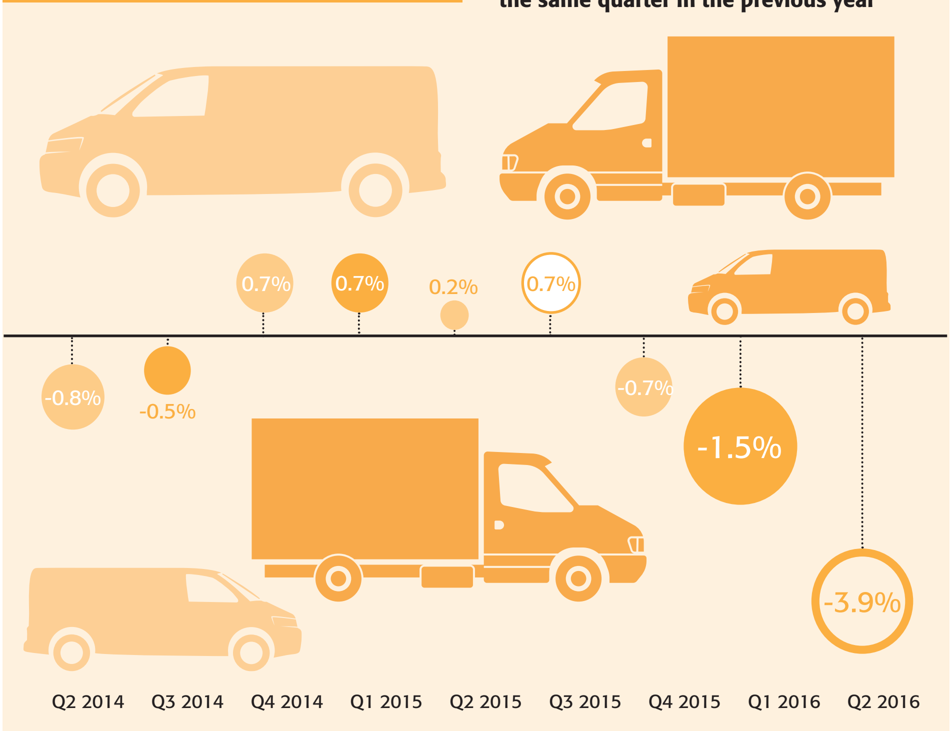
Combined liability

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



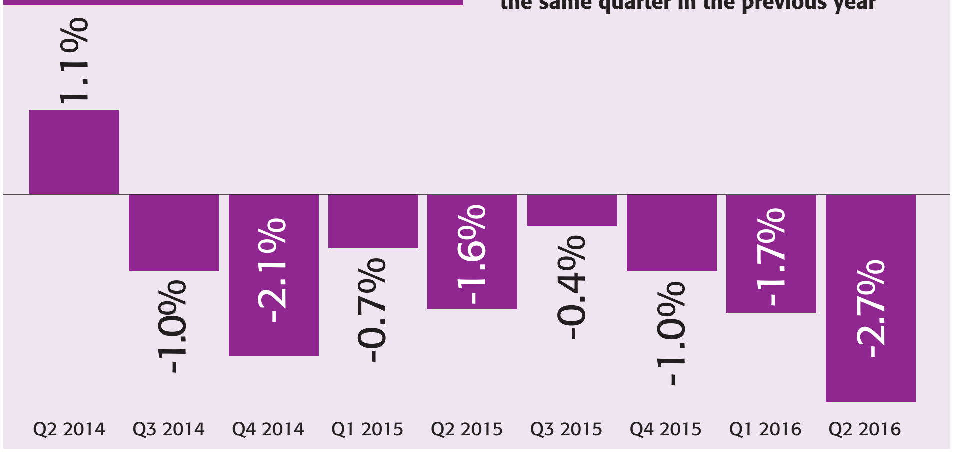
Fleet

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



Packages

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



The combined liability line saw a very small decline of 0.1%. It has enjoyed mainly positive movements since the start of the index, which may explain why it is still reaching above the baseline figure from 2010. It ended up at 111.2.

Paul Anscombe, managing director of Seventeen Group, was "surprised and concerned" that combined liability had not increased more.

"It concerns me how little has been achieved on the liability, which will be a problem for the market given this is longer term business," Anscombe stated.

"That would be the class that needed to show rate increase but if you look at the numbers that's going nowhere, which is a concern for insurers I'm sure."

Looking at motor, fleet also fell compared to last year. It was down 3.9% for the period, which is the biggest fall this line has seen in a long time, and ended up below the baseline at 98.4.

"It was interesting seeing commercial vehicle increasing compared to fleet which is still in a negative situation," Anscombe said.

He continued: "I couldn't put my finger on it unless commercial vehicle is demonstrating a better claims experience. Maybe the fleet side is hit more by personal liability claims."

Greaves added that he had seen increasing competition in motor in the last 24 months, with players coming in with "really aggressive rating".

Stating that the rating in motor needed to strengthen based on the inflation it had experienced, he noted: "I'm not seeing a downfall in rating, but from a business perspective it's more challenging."

Packages, which has experienced a negative trend for almost two years saw no change of direction for the quarter. This line was down 2.7% compared to the same three months in 2015. It was however still hovering above the baseline at 101.5.

"It doesn't surprise me that rates have reduced on that," Greaves continued.

"Not a lot of new business comes out to market so both insurers and brokers are just making sure that terms remain level."

He added that he expected to see more "selected and sophisticated" action around certain professions, including pubs and restaurants.

"We tend to see those as more problematic and individual action around those trades is feeding through to the portfolios."

Meanwhile, property owners also continued its negative trend and declined 2.3% in the second quarter of this year. This line has dropped the furthest below the baseline and came in at 96.5.

According to Chris Withers, head of broker distribution at Ecclesiastical Insurance, property owners has continued to be a "very attractive" class of business.

"There are probably not many insurers out ▷

there who wouldn't want to write property owners," Withers stated.

Adding: "There is a lot of capacity in that market so you've got to find a different way in which you can operate away from the purely premium piece."

But, as previously mentioned, it was not all negative in Q2. In contrast to fleet, commercial vehicle was up for the second consecutive quarter, by 6% compared to the same quarter last year. It also performed well in terms of the baseline figure and came in at 113.6.

Tradesman continued the upwards trend it has enjoyed for 18 consecutive quarters. It was up 2.5% compared to last year and can be found at 111.1 relative to the baseline.

Anscombe explained that this continuing climb was the result of more policies being traded online.

"Tradesman is micro policies which I'm sure are sold direct," he added. "This ties in with my thoughts that a number of the larger insurers will be reviewing their distribution channels and making comparisons between the broker channel and the direct channel performance."

Commenting on the general state of the commercial insurance market, Withers explained that it was difficult to find new business at the moment.

"There aren't a lot of new companies coming into the market so everybody wants to hang on to what they've got and everybody's quite well versed in retention strategies," he noted, adding that this led to a driving down of prices because "people would rather offer a small discount to retain business than see it go to market".

According to Withers another factor impacting on the market was the increases in Insurance Premium Tax.

"Often the insurer has been put under pressure to accommodate that increase so the client is seen to be paying a similar amount to previous years, but actually the insurer's premium is suffering which would manifest itself in these numbers," he continued.

Looking ahead, Anscombe noted that the market was likely to remain flat with no dramatic change occurring in the near future.

"The usual two issues which are massive surplus capacity and even more competition remain," he stated.

"The competitive nature just seems to be increasing all the time, particularly with the growth of schemes and MGAs."

Similarly, Greaves did not see any signs of the market hardening anytime soon.

"In reality this is the world we've been operating in since 2001, when the last real hardening market came in," he stated.

Greaves concluded: "But it's not all doom and gloom, people can make the required returns if they are sophisticated enough and they understand their portfolios and their numbers." ■