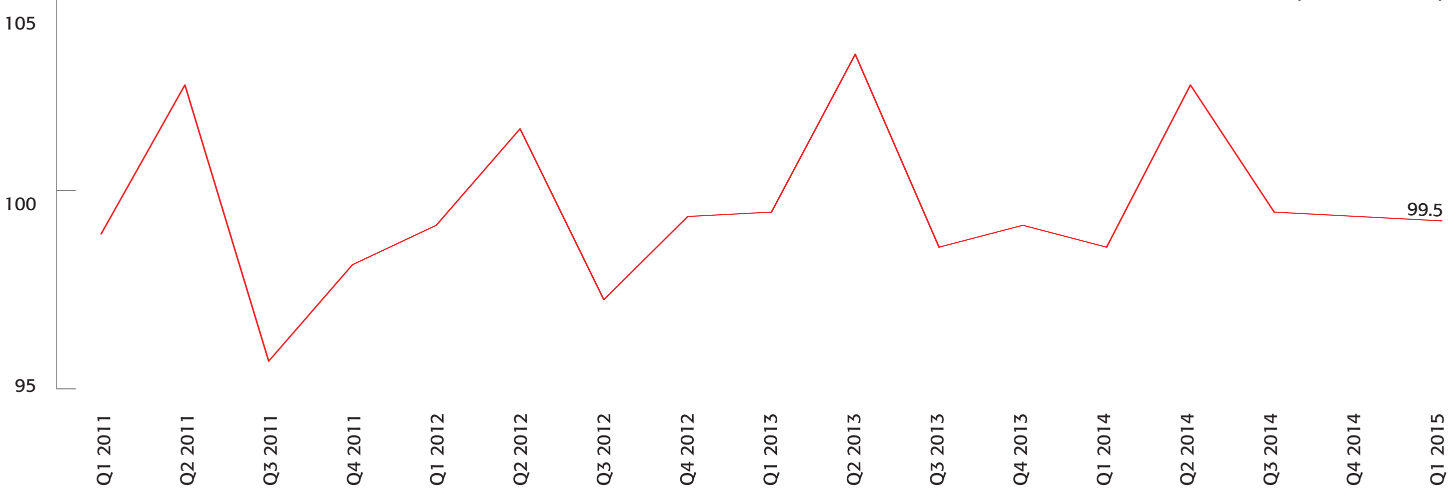
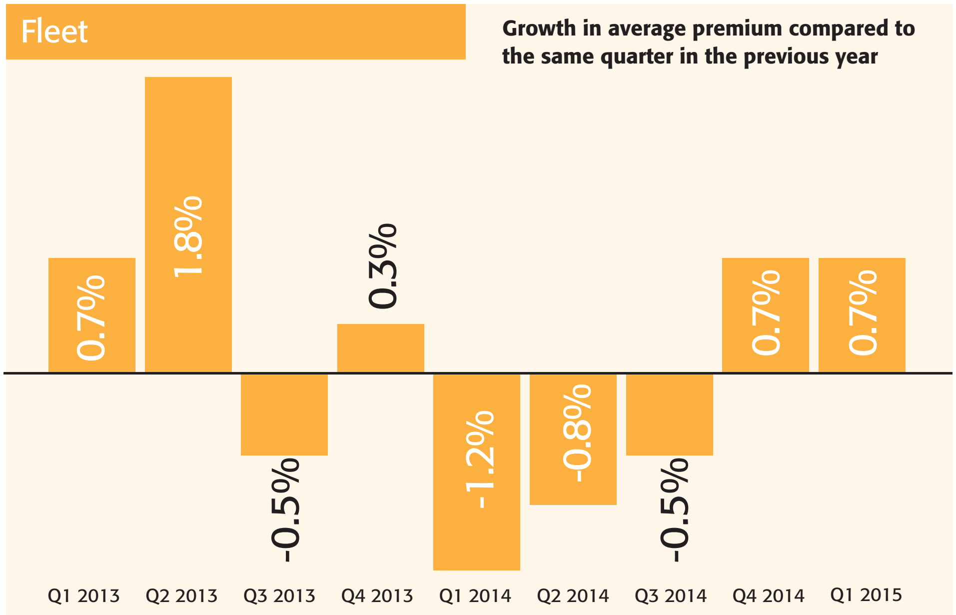
THE STATS – THE ACTURIS PREMIUM INDEX

The Acturis commercial broker index (Q1 2010=100)





● Whether you are a glass half-full or glass half-empty kind of person will determine whether you see the movements in the Acturis indices for the first quarter of 2015 in a positive or negative light. There were four, mainly small, rises in the average premiums and three falls.

The software company's commercial broker index, which is weighted across these key lines to represent a typical broker's commercial book of business, came out 0.6% ahead this quarter compared to where it was at the same point last year. According to Acturis the increase was primarily driven by a rise in property owners and combined liability premiums. Fleet has also seen a small positive movement, and tradesman was up too while commercial combined, commercial vehicle and packages premiums have decreased, keeping the overall growth down.

In terms of the commercial broker index, while the uplift was not huge, at least it was an improvement on the situation a year ago when the measure was negative.

However, as the graph above shows, compared to the baseline, which is the first quarter of 2010, the average premium has decreased to 99.5% of the original. The index is not adjusted for inflation, which means that in real terms the average premium in a broker's typical book of business has reduced compared to 2010.

The data from Acturis is generated from measuring the flow of around £5bn of premiums. It in effect takes into account the size of the risk and the size of the rate. Thus the changes in average premiums can be driven by movements in either factor.

So in the best spirit of glass half-full optimism let's have a detailed look at the sectors by focusing first on those with positive movements.

Explaining the figures

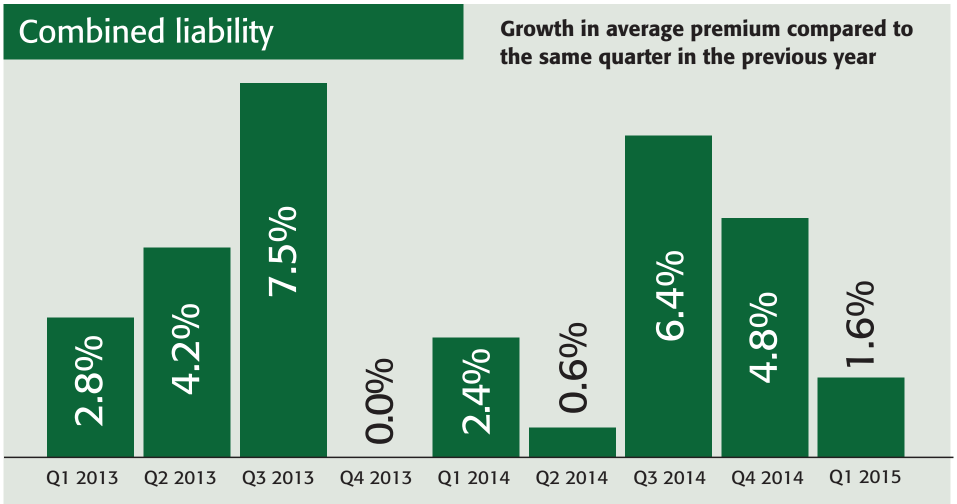
The Acturis commercial broker index consists of quarterly figures calculated on a base line of the first quarter of 2010. It has been designed to represent premium movements in a typical broker's book of commercial business. This index uses weighted figures from commercial combined (35%), fleet (25%), 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.

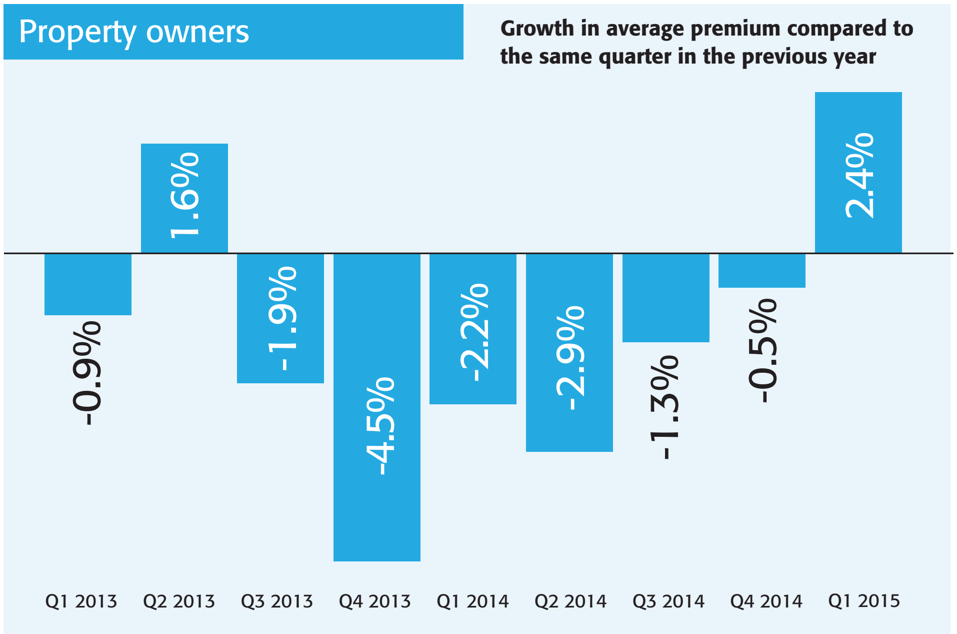
The further indices in the Acturis Premium Index covered in the text show year-on-year comparisons by quarter. By comparing each quarter with the same period the year before it is most likely to set the pricing of similar risks against each other.

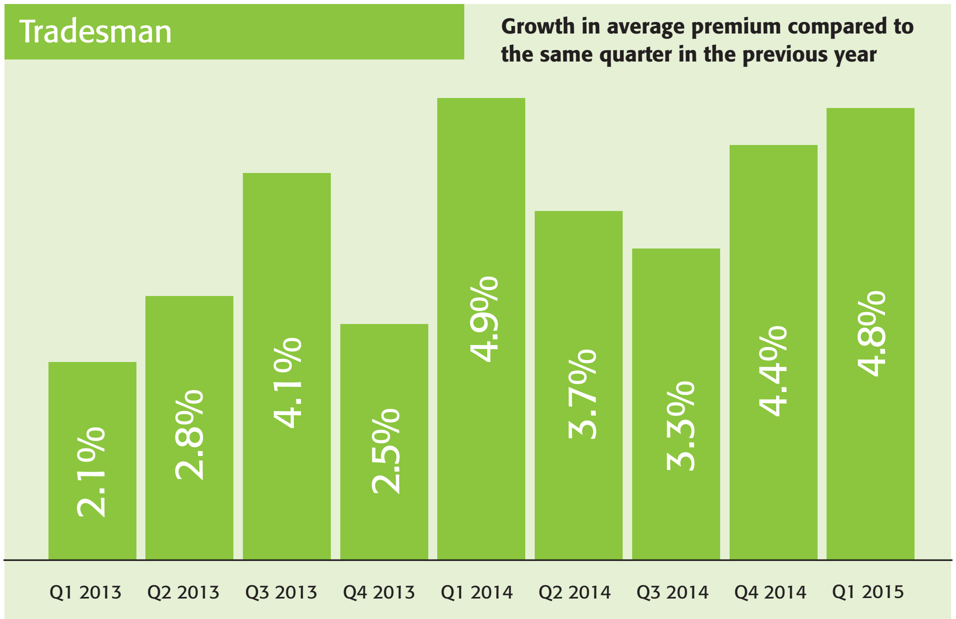
Fleet is the second largest class of business in a typical broker's book and has a 25% weighting in the commercial broker index. In this class average premiums went up 0.7% compared to the first quarter in 2014. It saw decreases in the first three quarters of last year, but has now had small positive quarter-on-quarter growth for two consecutive quarters. Compared to the baseline, fleet is at 101.5%, indicating a relatively flat market.

Mike Crane, commercial lines director at LV Broker, did not completely agree with the index.

"Fleet looks flat here, but in real terms I would say we have seen a backwards step," Crane said. In particular he argued there was still underlying claims inflation in the market and that while the current rating was great news for customers there was a ▹







risk of insurers starting to see an erosion in their results.

In contrast Juliet Williams, group SME director at Circle Insurance Services, stated: "I would have said a year ago that fleet was a volatile market, but it seems to have settled down now to a more realistic level."

Combined liability has continued its positive streak and year-on-year rose 1.6% for the first quarter of 2015. It has seen exclusively positive movements since the third quarter of 2012 and has broken through the 2010 baseline to reach 106.2%.

Another positive in this quarter was property owners, which saw a 2.4% increase compared to the first quarter of last year. Albeit a small rise, it is the first positive movement after six successive quarters of falls. Despite the uptick property owners remains below the baseline, coming in at 96.8% compared to the first quarter of 2010. The news of the increase received a mixed response from experts in the market.

Williams said she was surprised that premiums were going up, and highlighted that property owners was a competitive line with many players wanting more business.

She added that the market had previously been affected by people making lots of claims, but that it now looked like it was turning around. "It looks like it's in a stronger trading position now," said Williams.

Other experts *Insurance Age* spoke with pointed out that property owners is the line where prices have gone down the most over the past few years and that the increase was most likely a late correction.

Cathy Taylor, head of commercial underwriting and operations at Ageas, said: "Property owners has been so competitive and fiercely priced that it wasn't sustainable to keep it at that level. There has to be a balance, and I think it had to go this way."

The tradesman line saw an increase of 4.8% in the first quarter of 2015. It has had a long streak of positive movements ever since the start of 2012 and now stands at 114.3% of the Q1 2010 figure.

The fact that tradesman continued upwards surprised Tim Ryan, executive chairman at Ryan Insurance and at Una Alliance, who said that direct sellers were interested in this space, which "would normally soften price".

He added: "I would have expected some impact from price driven click-and-buy sites. This is a very price orientated proposition yet the prices seem to have gone up."

After all the positivity it is time to move on to the negatives. Let's start with commercial combined which went down for the second consecutive quarter. The drop for the first three months set against the same period of 2014 was 0.2%. This is particularly important as it is the most highly weighted class of ▹

business in the commercial broker index and is at 96.3% compared to the original baseline. The general consensus was that this seemed to be in line with what experts had seen in the market.

Commercial vehicle saw the biggest fall of the quarter's figures and has gone down by 10.3% compared to the same time period last year. With the exception of the second quarter of 2014 when it was up 0.2%, commercial vehicle has seen negative movements since the fourth quarter of 2012. The situation is not all doom and gloom for commercial vehicle which is still at 108.0% compared to the baseline figure. According to our experts the negative streak can in part be explained by premiums being affected by an increase in data enrichment.

Taylor suggested that the drop could be connected to an increase in digital, enabling premiums to be more competitive, and added that "some of the bigger players have re-entered the market, which has made it very aggressive".

However, Crane did not agree with the size of the fall: "That commercial vehicle is down over 10% is a bit of a surprise – that looks a lot to me," he said. "It's quite an extreme movement and we haven't seen that. I would have expected it to be closer in line with fleet."

Finally, the packages line also saw a fall at the start of 2015 and was down 0.7% compared to the same quarter last year. This is the third consecutive quarter of negative movements for packages, which is at 103.1% of the 2010 starting point.

"In packages there is so much competition and insurers are competing massively on Acturis," Williams commented. "There are new players entering, because it's easy to compete in that line. Healthy competition benefits my clients because they can get a good price."

Some surprises and disagreements aside, the general movements reported by Acturis seemed to be relatively in keeping with what people in the market had experienced in the first quarter of this year.

Commenting on the overall index, Ryan said: "A competitive market continues to hold back pricing and we see the market as flat with the occasional suicidal rate. Our partners need to carry rate in some areas and we try and support their ambition."

The consensus was that the market will continue to remain soft for the rest of this year.

"The competitive environment is here to stay," commented Crane. "In personal lines rates are relatively flat right now, so insurers are looking to grow their commercial lines market share to make up for that."

Williams also pointed to the competitive environment and said she would not be surprised if premiums continued to go down in the coming months. "People are going hard in the market at the moment. However, I'm not sure bringing commercial vehicle down more is sustainable."

Ageas's Taylor agreed that there would most likely not be much change this year, but added that she was hopeful that the market might start hardening in 2016.

"It's been difficult for years now," she concluded. "I think 2002 is the last hard market I can remember." ■