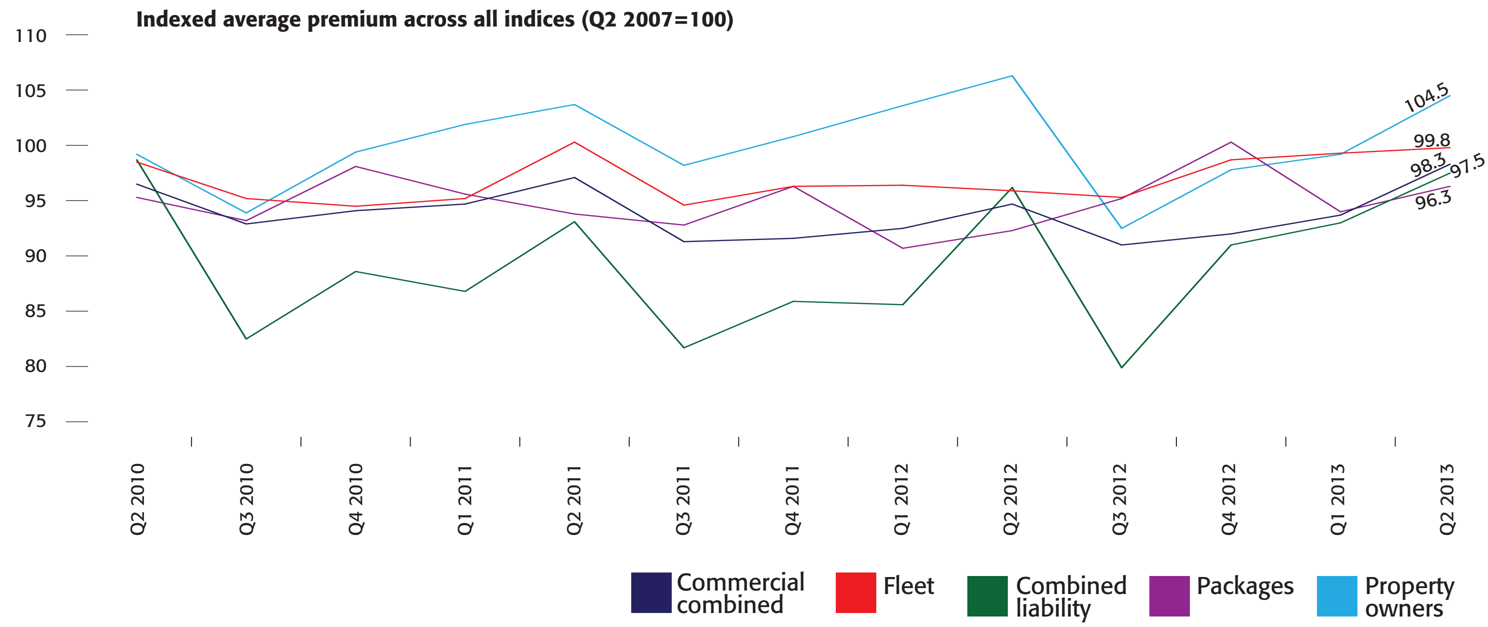
THE STATS – THE ACTURIS PREMIUM INDEX



● The first undertones of rate hardening in the market place now appear to have given way to a distinct hum with increases gathering pace.

There is a growing consensus from insurers that commercial rates across the board are hardening, albeit not as quickly as they would deem necessary, but definite strengthening nonetheless. The latest Acturis Premium Index has added further support to the view that this is taking place. The figures are a measure of premium and thus are potentially impacted by an increase in size of risk as well as by rate hardening.

However it remains encouraging that average year-on-year increase for all five lines during Q2 2013 came in at 4% with property owners – just like during Q1 2013 – being the only area to record an annual decline.

Furthermore, all lines posted a quarterly rise, as they edged ever closer back up towards their Q2 2007 base rate levels.

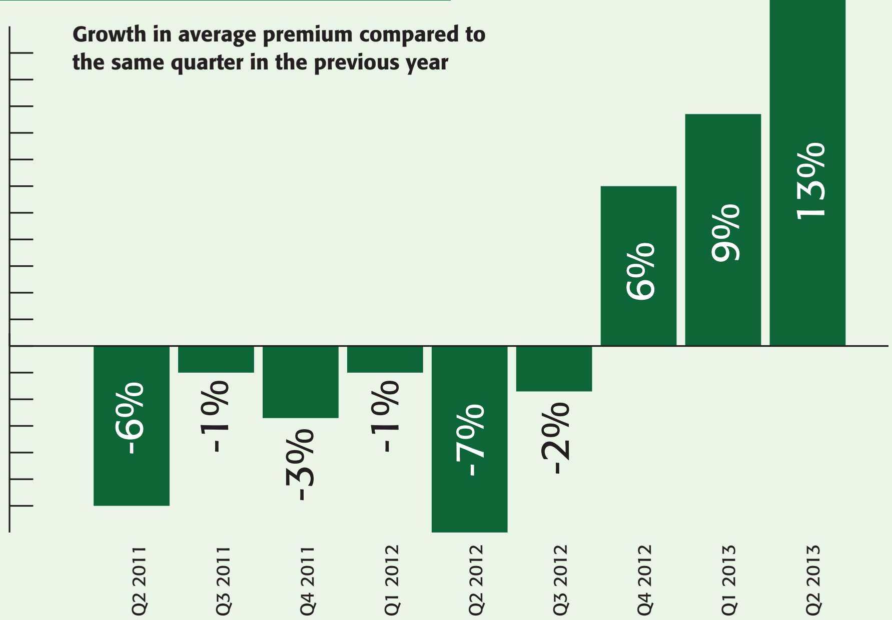
Yet Acturis, as part of its research briefing, highlighted that an increase in average premium from Q1 to Q2 is a cyclical trend that has been regularly displayed in recent years.

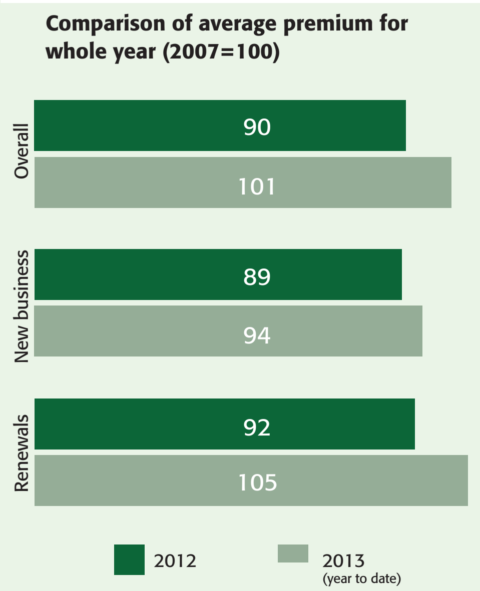
However, it added: “We hope that this trend is due to underlying fundamentals.”

First up, continuing its current strong performance was combined liability. Described by Acturis as “the star of the show this quarter”, the line recorded a strong 13% year-on-year premium increase, coupled with a quarterly rise from 93 to 97.5. For context, 100 is the base rate clocked for Q2 2007.

This trend has been in line with the views of the market. Indeed, Roy Watkinson, head of commercial, Ageas Insurance, analysed: “There are definitely more employers' liability claims being made at the moment and this is probably the main driving force behind the increase in combined liability.”

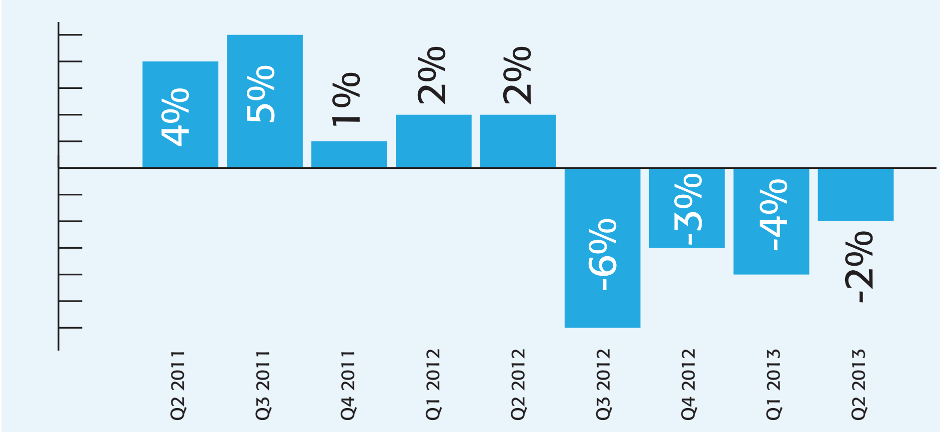
Combined liability



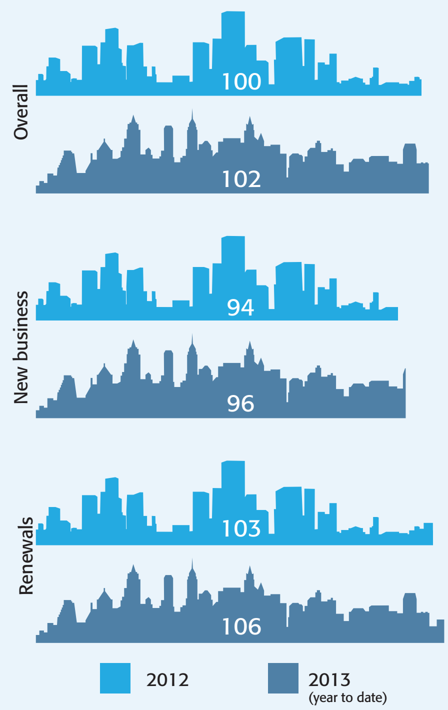


Property owners

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



Comparison of average premium for whole year (2007=100)



Indeed, three months ago, combined liability was again the leading line on both a quarterly and an annual front, with injury claims and the litigation environment continuing to be the main forces behind the rate's upward movement.

It is an area that Mike Crane, LV Broker commercial lines director, predicted will continue to display positive increases over the coming 12 months.

"Liability has been showing a bit more traction and I would expect it to carry on in the same vein," he assessed. "We are still seeing claims patterns and client behaviour change and that will keep on going."

Nevertheless, in spite of this sustained movement, Matthew Reed, Axa MD of commercial intermediary, said he believed that liability rises need to run closer to 25% to compensate for the losses the market has been racking up in that area.

He estimated that the market's combined operating ratio for liability was still above 120%. "Certainly double-digit rate increases are a minimum," he stated. "But the market needs more than that, a 13% rate increase will not get us on to profit. That's the scary thing because the claims farming industry has moved onto employment liability."

Explaining the figures

The quarterly figures, compiled by Acturis' Will Smith, are calculated on a base line from the second quarter of 2007. These three-monthly movements are supported in the text by quarterly year-on-year developments, comparing identical quarters a year apart. In this manner the analysis highlights both short-term trends affecting brokers on a day-to-day basis along with longer view comparisons that are most likely to set the pricing of similar risks against each other.

Meanwhile, on the flip side, property owners was the only line that posted a 2% year-on-year premium decline. However, this was softened by a healthy quarterly rise from 99.2 to 104.5, taking it significantly above its 2007 base rate.

Yet, as Acturis highlighted: "This is sadly the worst performance across all classes this sector. This continues the disappointing performance observed since Q2 2012."

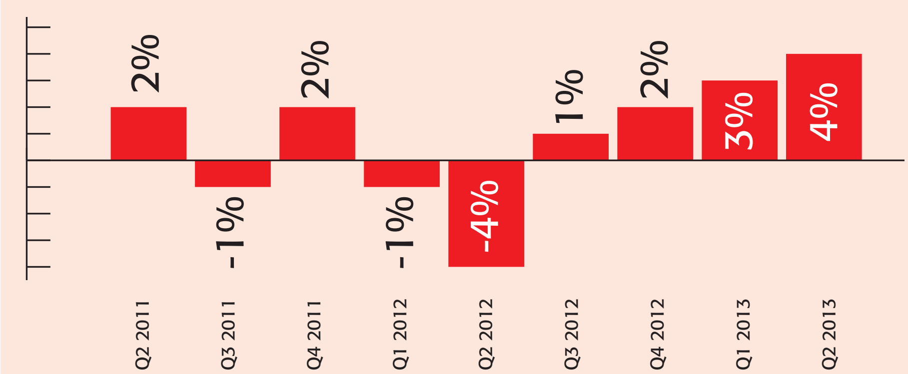
But it is a trend that is largely at odds with key players in the market place. Ageas' Watkinson admitted that he was "surprised" to see this line's rating strength fall.

"This is generally a positive and profitable area to write business and like the other lines we're seeing small increases in the Ageas book so far in 2013," he commented.

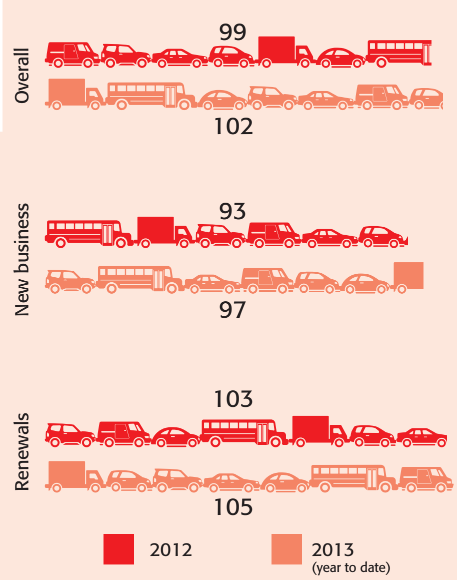
"There has been a slight reduction in large losses in the UK, but weather events have continued to cause property insurers problems over the last six years. Thankfully, things have been much quieter on the weather front in 2013."

Fleet

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

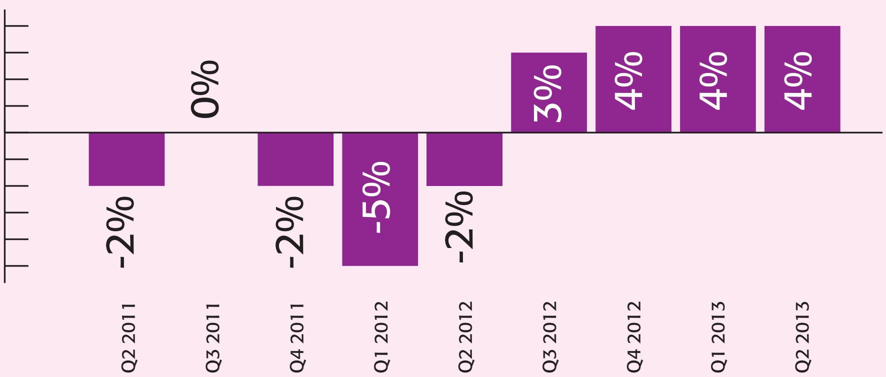


Comparison of average premium for whole year (2007=100)

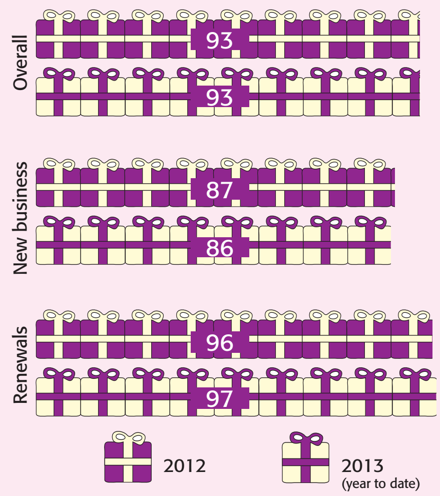


Packages

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



Comparison of average premium for whole year (2007=100)



Likewise, Dave Greaves, portfolio manager of QBE's Fast Flow, also disputed the annual rate drop recorded by Acturis. He claimed that the insurer had refrained from taking a "broad brush" approach to their property books and had instead focused on splitting residential risks out from commercial, to prevent residential from "polluting" the latter.

He summarised: "Pricing in the industry is now more sophisticated in terms of geography and age of property."

Another line which Greaves described as having benefitted from QBE's more advanced pricing was fleet. Indeed, Acturis described the line as having displayed "encouraging signs" after having posted positive movement on both a quarterly and year-on-year basis. Yet Greaves insisted that the reported annual 4% rate rise was actually slightly out of kilter with his market experience, assessing that it had come in higher at up to 7% over the past 12 months.

"Across the piste, rates rises have been more than that," he continued. "These rates are not reflective as our approach has been much more selective and sophisticated."

Echoing Greaves was Axa's Reed, who added that the insurer had seen a rate rise of up to 8% emerging for its fleet business. Although acknowledging that there remained some "serious issues" around commercial fleet, he maintained that fleet has been under-priced for a long time and that these rises were long overdue.

"We are probably seeing twice the Acturis trend coming through," he said. "It's not a knee-jerk reaction, the market has been soft for a very long time and we are still catching up."

Completing the Acturis rundown were packages and commercial combined which both posted year-on-year premium increases of 4%, as well as encouraging quarterly rises.

Significantly, these commercial rate rises appear to be gathering pace at a time when the gaze of the Financial Conduct Authority (FCA) is firmly fixed on the operations of insurance brokers.

Thematic reviews on the likes of motor legal expenses add-ons and broker conflicts of interest, to name just two, have been announced in recent months. And Reed was adamant that these rate rises were coming through at a crucial time for brokers. "Fundamentally, the FCA is going to look very carefully at the things brokers sell which are not proper insurance," he explained. "And if these revenue streams are taken away then we will need the right price which we can only get by increasing rates."

And while long-overdue commercial rate rises are to be welcomed for insurers and brokers alike, the key, according to QBE's Greaves, is for brokers to maintain regular contact with clients, manage their expectations and give "prior notice that changes are occurring" to ensure that any surprise premiums jumps are avoided.

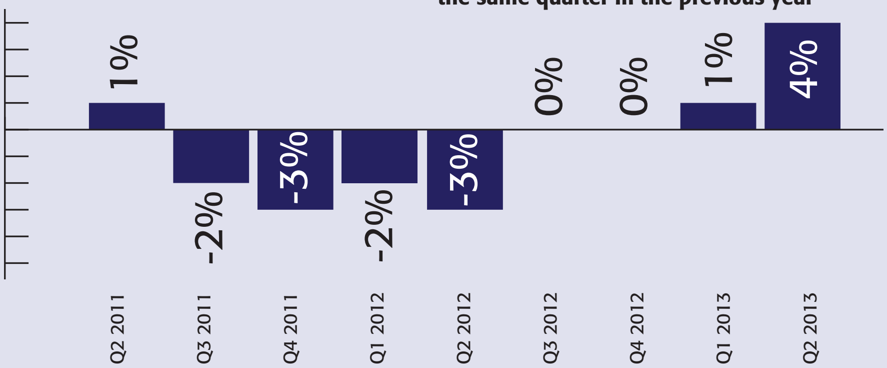
Looking ahead to the next 12 months, the consensus is clear – at least more of the same is to be expected. Although big bang rate jumps are not being banked on, a steady continuation of rises with a focus on poor-performing risks, as well as more selective pricing, underwriting and risk acceptance is certainly in the offing. Of course, strong double-digit rate increases across the board would be welcome but following years of an undercooked commercial market, insurers are hesitant to herald a wholesale market shift.

"At a time when personal lines seem to be going quite fast in another direction, there are real tangible signs that commercial lines are beginning to perform," analysed Crane.

"Is it enough? It feels like it is going the right way, it is on the road to recovery, but as for the main road, we need a bit more time to wait and see." ■

Commercial combined

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



Comparison of average premium for whole year (2007=100)