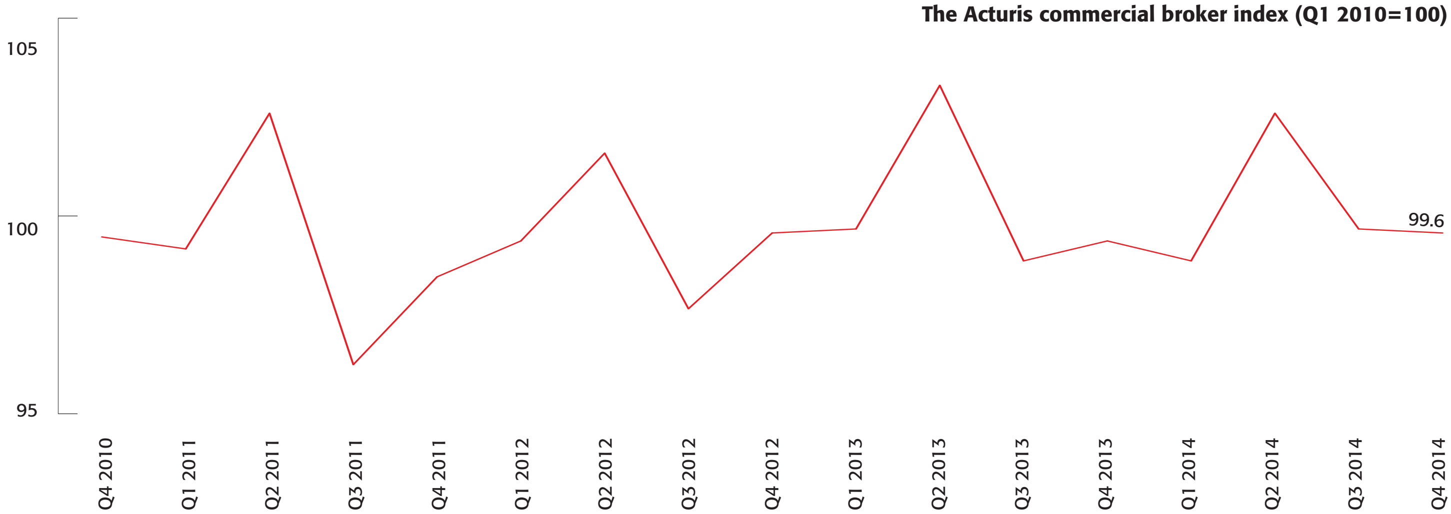
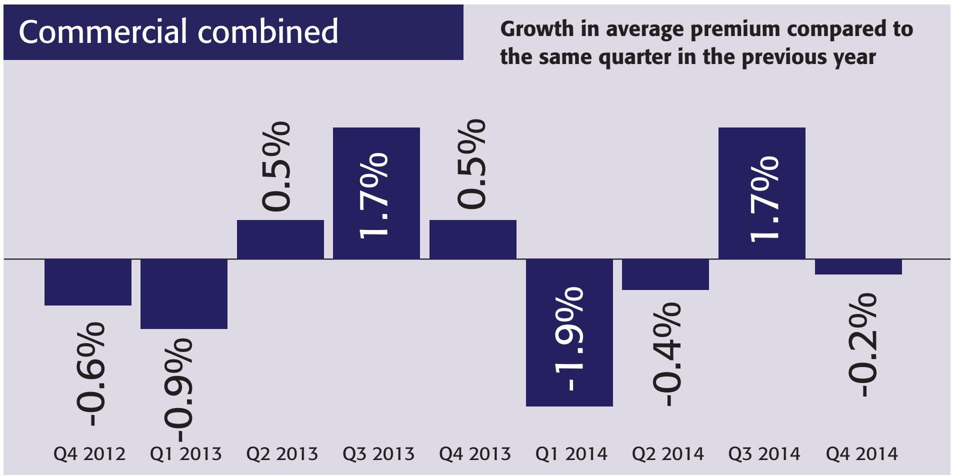
## THE STATS – THE ACTURIS PREMIUM INDEX

**The Acturis commercial broker index (Q1 2010=100)**




● The Acturis indices have delivered a mixed report on the movement in average premiums in the fourth quarter of 2014.

There were some small positives, for instance the software company's commercial broker index, which is weighted across key lines to represent a typical broker's commercial book of business (see 'Explaining the figures' box below right), went up by 0.2% this quarter. The figure is a like-for-like comparison looking at the same quarter in the previous year. The increase is encouraging as the figure for the same quarter of 2013 – as well as those for the first two quarters of 2014 – was negative.

However, the overall image projected from the figures is relatively gloomy. Several lines of business saw negative movements and the graph above shows that compared to the base line, the first quarter of 2010, the average premium has decreased to 99.6% of the original.

Albeit a small negative change, Acturis pointed out that the indexed premium values are not adjusted for inflation and that in real terms the average premium in a broker's typical book of business has been significantly reduced in 2014 compared to 2010.

"The inflation rate for the period is approximately 14%," Acturis stated. "This underlines why many brokers are having trouble growing revenues organically since in real terms premium is decreasing each year."

Premium consists of two elements – the size of the risk and the size of the rate – meaning that the changes we see in average premiums can be driven by movements in either measure. The numbers reported by Acturis are a combination of both of them and measuring changes year-on-year allows for comparable risks to be set against each other.

With the indices measuring the flow of some £5bn in premiums, it is time to look at the figures section by section, starting with the lines with negative movements.

The average premium for commercial combined has gone down 0.2% compared to the fourth quarter of 2013, after enjoying a positive jump in the third quarter of last year. Compared to the base line, commercial combined is at 97%, and is one of the two lines that are actually below where they were in 2010.

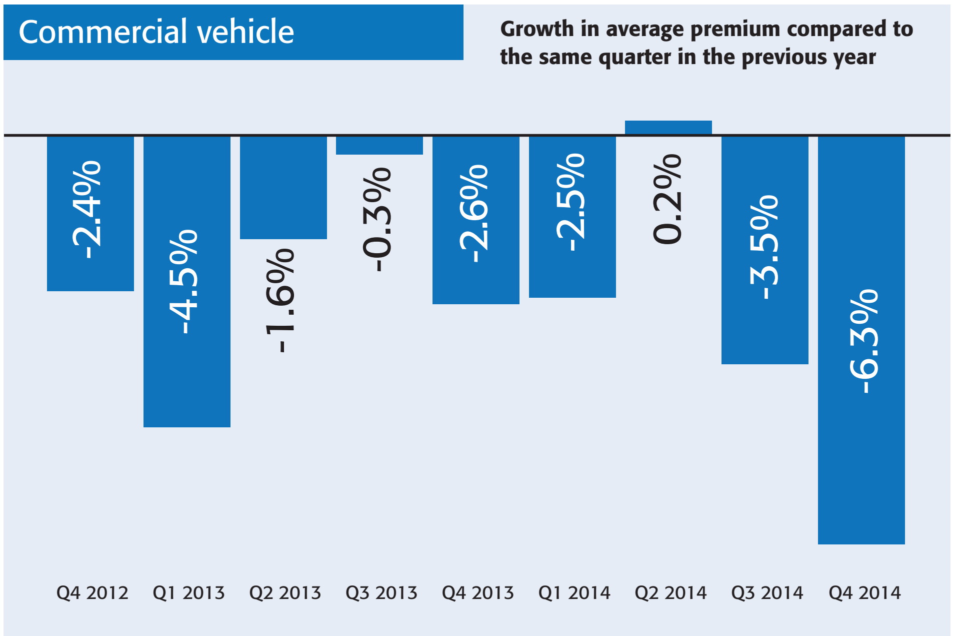
Commenting on the figures, Martyn Denney, head of networks division at Marsh ProBroker, said that his experience of the market was a little bit different. "We've seen the mid-market business reduced by more, because it's under heavy competition," he noted. "But there has been more rate strength in smaller markets. Insurers have different strategies in different premium bands and there is more competition looking at the mid-market band."

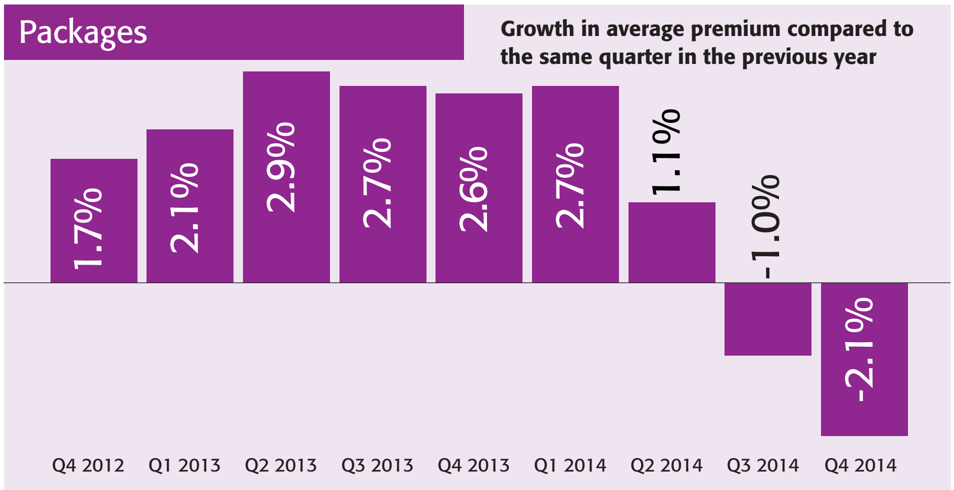
A line that continued on a negative trend is commercial vehicle, which was down 6.3% in the fourth quarter of 2014 compared to the previous year. With the exception of the second quarter in 2014 when there was a small 0.2% uplift, this line has seen solely negative movements for the past two years. Compared to the base line it is at 113.7%, which is a higher ▹

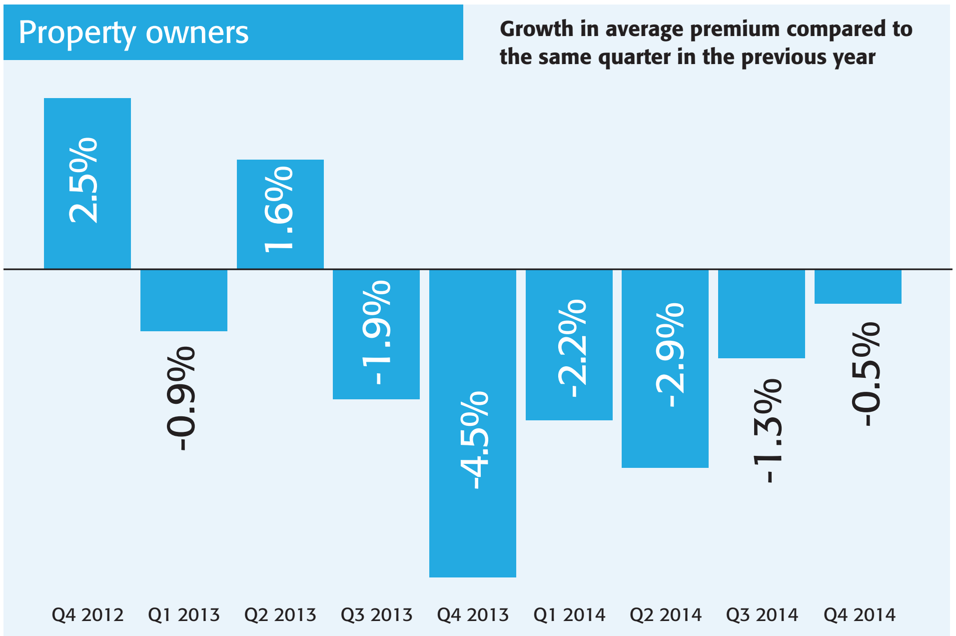
### Explaining the figures

**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.**




level than any of the other lines. However, this figure may concern some brokers as commercial vehicle had previously not been below 120% since the second quarter of 2011.

"Commercial vehicle is in line with what we expected," said Finlay Smith, UK commercial underwriting and pricing director at RSA. "But I would question the extent of the reduction in the fourth quarter."

He added that because of increasing amounts of claims in both the commercial vehicle and fleet lines, he expected to see positive movements in 2015.

Also dipping in the fourth quarter was the packages line, which fell 2.1%. This was the second consecutive quarter of negative movements for a line that prior to the third quarter of 2014 had seen only positive figures since the beginning of 2012.

Edward Finch, managing director of MRIB Group, disagreed with this negativity. "Acturis says it's gone down, but I would say it's actually gone up this quarter," he said.

Also disagreeing, Denney highlighted that he had not seen a drop-off at the end of the year either. "The figures for packages overall show a flat year, which is something I concur with," he added.

When numbers for the third quarter of 2014 were released, experts suggested that the packages line of business had been impacted by technology and an increasing use of e-trading solutions, something that could explain the continued decline in the fourth quarter.

Time to move on to property owners which has seen a fall of 0.5% compared to the fourth quarter of 2013. This line has delivered mainly negative figures, with a few positive blips, since the index started, and compared to the base line it is at 91.1%, which is the lowest level of all of the lines.

The general opinion in the market seemed to be that property owners is a highly aggressive and competitive area, where most insurers wanted more business than they got last year. However, a greater reduction could have been expected, given that 2014 was a benign weather year.

But it was not all negativity in the fourth quarter of 2014, so let's take a look at the positives.

Combined liability rose 4.8% compared to the final quarter of 2013 and has been experiencing exclusively positive movements since the third quarter of 2012. Compared to the base line it is coming in at 109.3%.

Finch agreed that it had been a positive quarter for combined liability and added that he had seen an even greater rise and Smith stated that he thought there would be a continuation of this trend in the coming year.

The tradesman line has seen positive movements since the beginning of 2012 and it rose 4.4% compared to the final quarter of the previous 12 months. It benefits from having seen progress since 2010 coming in at 110.9% compared to the base line.

There was a consensus that this line matched what had been seen in the market, and that it would most likely continue to achieve positive changes going forward.

The figures for fleet have been a negative story for the first three quarters of the year, but in the fourth quarter of 2014 there was a rise of 0.7% compared to the same quarter in 2013. This line is hovering close to the base line at 100.8%.

Commenting on the figures, Denney was quite surprised. "We saw an intensely competitive Q3 and Q4. Decent fleets have seen rate reductions and it's the class of business where interesting things happen from insurers quoting premiums. We saw a market that is very aggressive, I don't necessarily recognise these figures."

Aside from some disagreements, the general movements reported by Acturis seemed to be relatively in line with what most people in the market had experienced.

The relatively flat year also means it has been fairly stable, but Denney noted that "unless a broker has had increases in commission or revenues it's been fairly static".

"It has a lot to do with geography as well, London and the South East is more buoyant. When rates are flat there is more business growth in London and the South East," Denney said. "It's very challenging for brokers across the rest of the country, they've had a tough year."

Simon Cooter, commercial lines director at Covéa Insurance confirmed that Acturis' figures for 2014 were consistent with what he had seen in the market place. "It remains highly competitive with insurers keen to hold on to business and only able to achieve modest rate increases," he noted.

Looking ahead at the coming months Cooter added: "Although the general economy is slowly improving, all indicators suggest that the outlook for rates will remain challenging. The simple fact is that there is no shortage of capacity."

And expanding the horizon to take in the whole of 2015, industry experts seemed equally certain that the market would remain competitive. Overall they highlighted that the combined liability and tradesman lines would continue to see positive movements. However they also predicted that property owners would continue to be an aggressive market, while one opinion was that fleet would remain relatively flat.

"This year will be a mirror of 2014," Finch concluded. "By June insurers will be trying to see rate increases to make profit so rates will be reduced in the back end of the year. We'll see growth in the beginning and reductions in the end of the year." ■