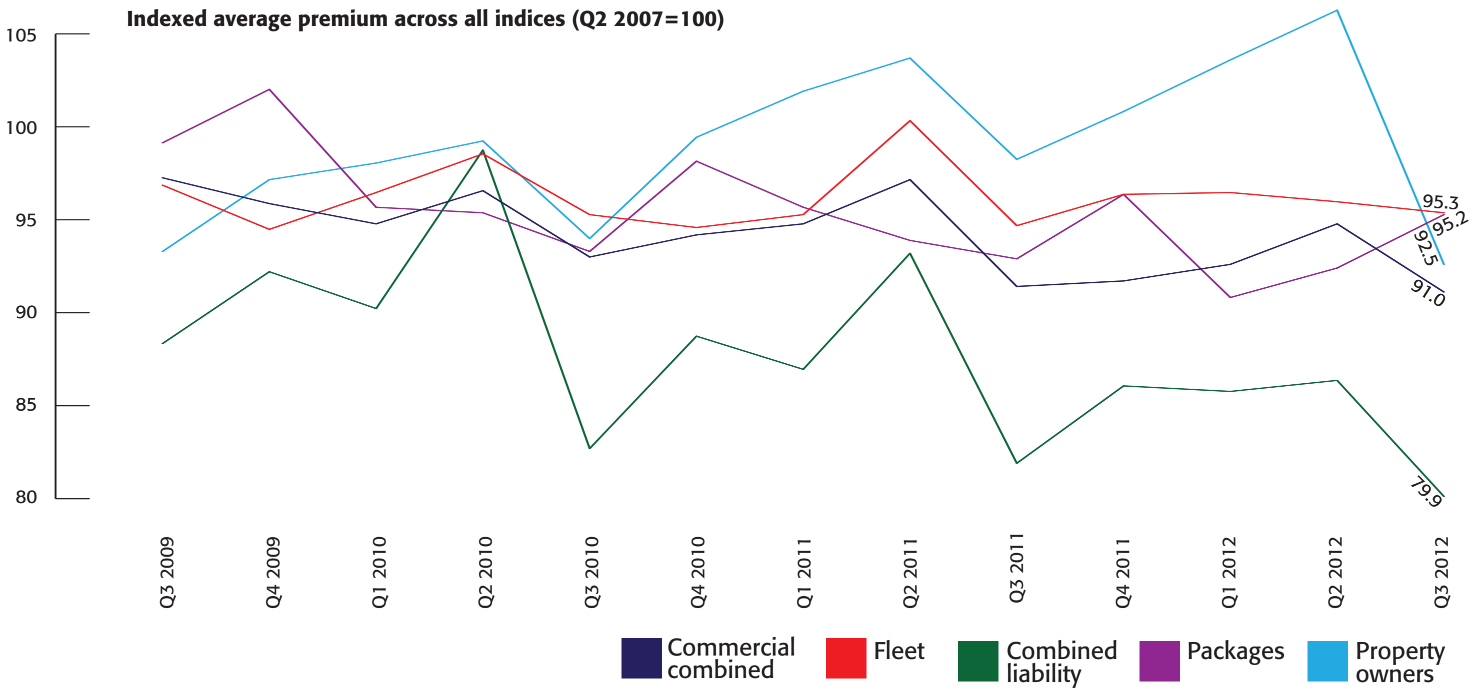
THE STATS – THE ACTURIS PREMIUM INDEX



● A glance at the latest Acturis Premium Index statistics depicts an insurance market largely in freefall with three of the five indices showing significant quarterly downward movement and a fourth edging lower too.

Commercial combined, combined liability and property owners have all notably dropped during the third quarter of 2012 compared to the previous three months.

Furthermore, average premium for fleet edged down 0.6 points during the quarter, with the only upward shift recorded by packages – a modest 2.9 point rise.

Compounding the issue are the year-on-year figures, which are arguably a fairer reflection as they more accurately compare like-for-like risks. The results make for equally difficult reading with property owners premiums plummeting by 6% and combined liability edging down by 2% for Q3 2012 compared to Q3 2011.

As commercial combined average premium over the past 12 months remained flat, it was just fleet (1%) and packages (3%) which recorded yearly increases.

Yet, amid the seemingly incessant downward spiral of premiums, there appears to be a growing school of thought opting not to take the statistics at face value.

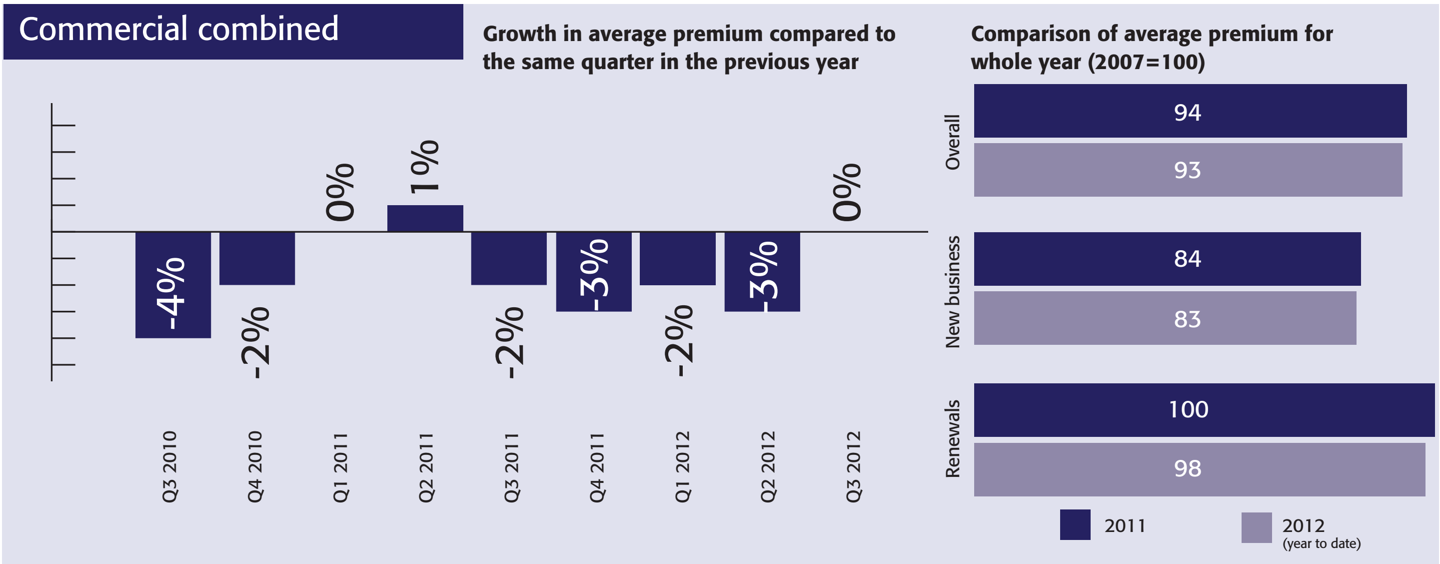
Dave Smith, managing director, commercial broker at Zurich, insists that "the market is carrying 5%-10% across all five lines".

He states: "It's not doom and gloom in that it's difficult to say what is doom and gloom, we are carrying rate increase across every line of business."

And he is optimistic that the upward trend he has witnessed over the past 12 months is set to continue over the course of 2013.

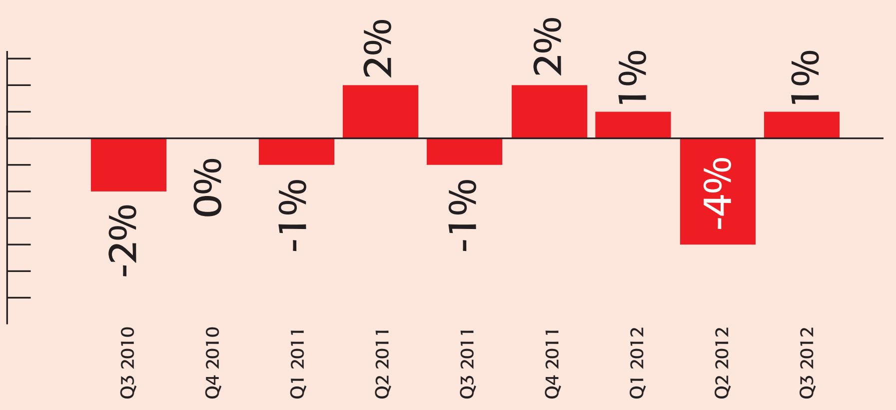
Indeed, the screw looks to be finally turning on the market.

However, the caveat is that there is a long way to go until insurers can finally feel they are emerging from the soft market and that rate pressure has been comprehensively lifted. ▷

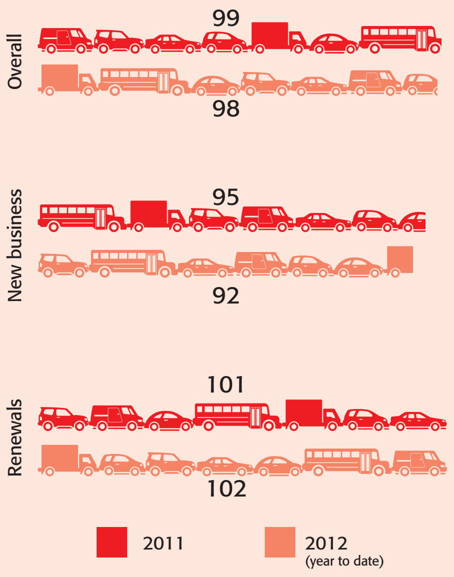


Fleet

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



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



Mr Smith – who ideally would like to see rate rises of at least 12% become the norm across the board – continues: "We are not carrying the level that's needed to return the market to what's required.

"Every combined operating ratio, particularly in commercial lines, is under pressure and next year this will further increase. It's not moving as fast as any insurer would want it to."

Indeed, Mr Smith's sentiment is also shared by Neil Clutterbuck, director, underwriting and technical, at Allianz Commercial.

His view is just as unequivocal, for he believes that the "numbers don't really bear any correlation to anything I can say that I have seen".

On a quarterly basis, he has witnessed premium increases of some 6% for commercial combined and property owners, while fleet has also recorded upward rate movement of 6%.

What's more, Mr Clutterbuck has observed double-digit growth coming through for combined liability over the last 12 months, which now seems to be "gathering momentum".

And he also believes that the small premium growth recorded by Acturis for packages looks to be on the light side.

According to Mr Clutterbuck, recession-related claims are now surging through the system and are therefore forcing insurers to sink or swim.

"We will see rates continue to grow, rates continuing to move up and that will need to be for a sustained period," he explains.

"Some momentum is building, [this is] recognition of some difficult trends in terms of claims inflation.

"The only way is by improving risk management, risk selection and the adequacy of the premiums being charged."

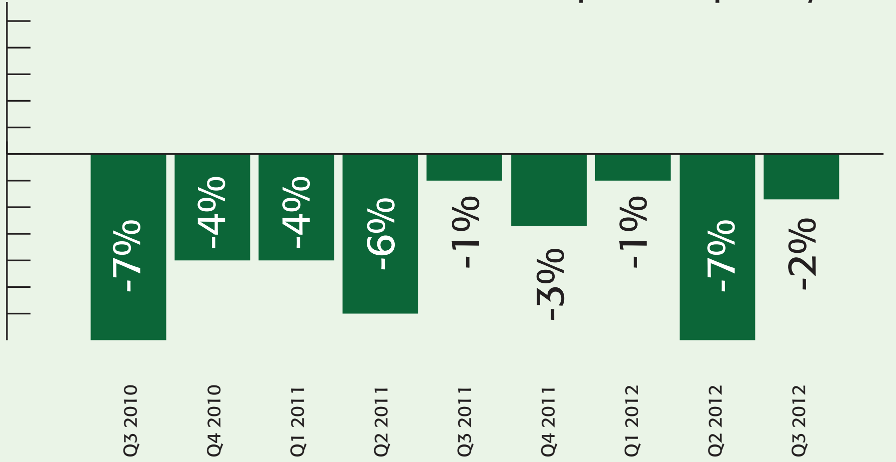
Certainly, the rates witnessed by Mr Smith and Mr Clutterbuck are of stark contrast to those recorded by Acturis' analysis. As ever, the issue could be that the numbers are skewed by being a calculation of both rate and size of risk. In plain English, rates can go up, but if the size of the risks

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 year-on-year developments. 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.

Combined liability

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



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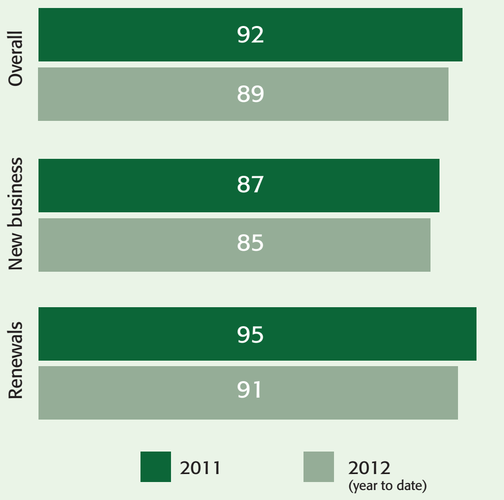
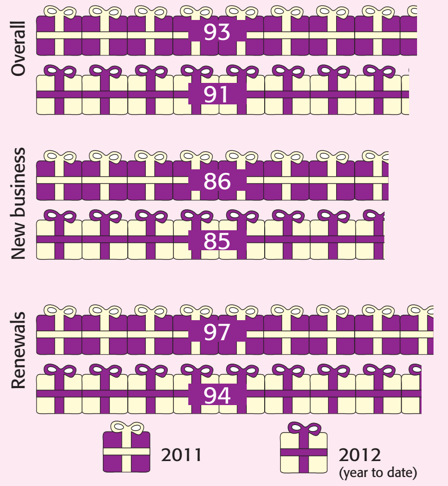
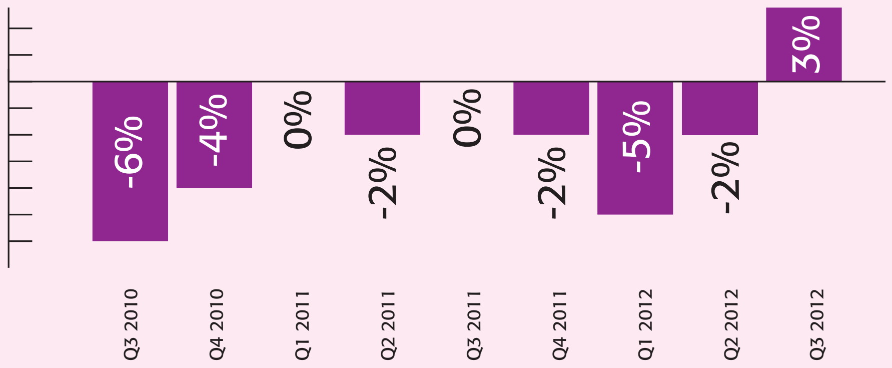


Packages

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



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



goes down, then the premium has fallen. It is an important nuance in the debate that has raged ever since we started covering the quarterly findings from the second quarter of 2011.

However, in its own analysis of the report, the software provider is clear, stating that "there is very little good news" as far as these numbers are concerned. Standing head and shoulders above the other lines in terms of collapse are combined liability and property owners premiums.

As for combined liability, average premiums plummeted 6.3 points during Q3 2012 to the lowest value the index has seen. And property owners premiums – which has been Acturis' best performing index in recent surveys – fell for the first time on a quarterly basis since Q2 2010, plunging 13.8 points.

So who's right? The technology specialist which collates data on a daily basis or the insurers who are constantly observing the market place? Well, perhaps they both are, according to Barry McGoun, managing director, BJP Insurance Brokers.

"It could be there were still [premium] reductions in July and August," he explains. "From our point of view they are two of our worst months – you need to chivvy around to get the lowest premiums you can.

"Nowadays, three months on, it's that much more difficult to get a reduction in premium."

In short, it may just be the last few months, rather than Q3 2012, during which premiums have begun to rise significantly.

And, by all accounts, this steady increase is long overdue and a crucial turnaround from a soft market which was seemingly stuck in the doldrums.

As Mr McGoun assesses: "Insurers think brokers want the cheapest premiums. In a way we do but we all want to see increases overall – we want the whole market to go up and it needs to.

"Insurers can't go on losing money and the truth is most are losing money or are not making enough. Every insurer has dipped into their reserves, now there's nowhere to go."

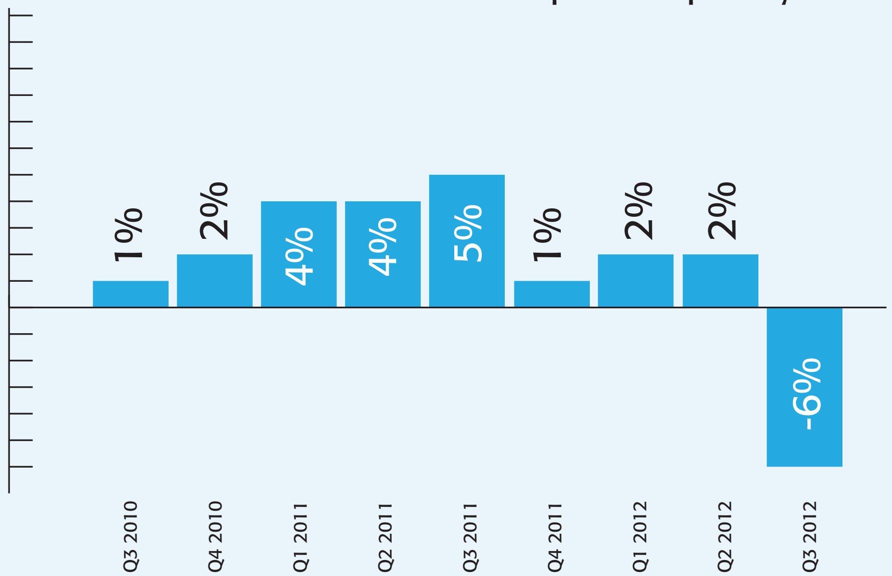
And what of Mr McGoun, his broker counterparts and their all-important customers if premiums do rise during 2013?

Actually, he is resolute in his approach: "Now is the time to earn our money," asserts Mr McGoun. "It's easy to say, look your premium is 10% less than last year, sign here.

"But when they're 10% more, that's when you need to prove you have done your market exercises and the right thing for your customers." ■

Property owners

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



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