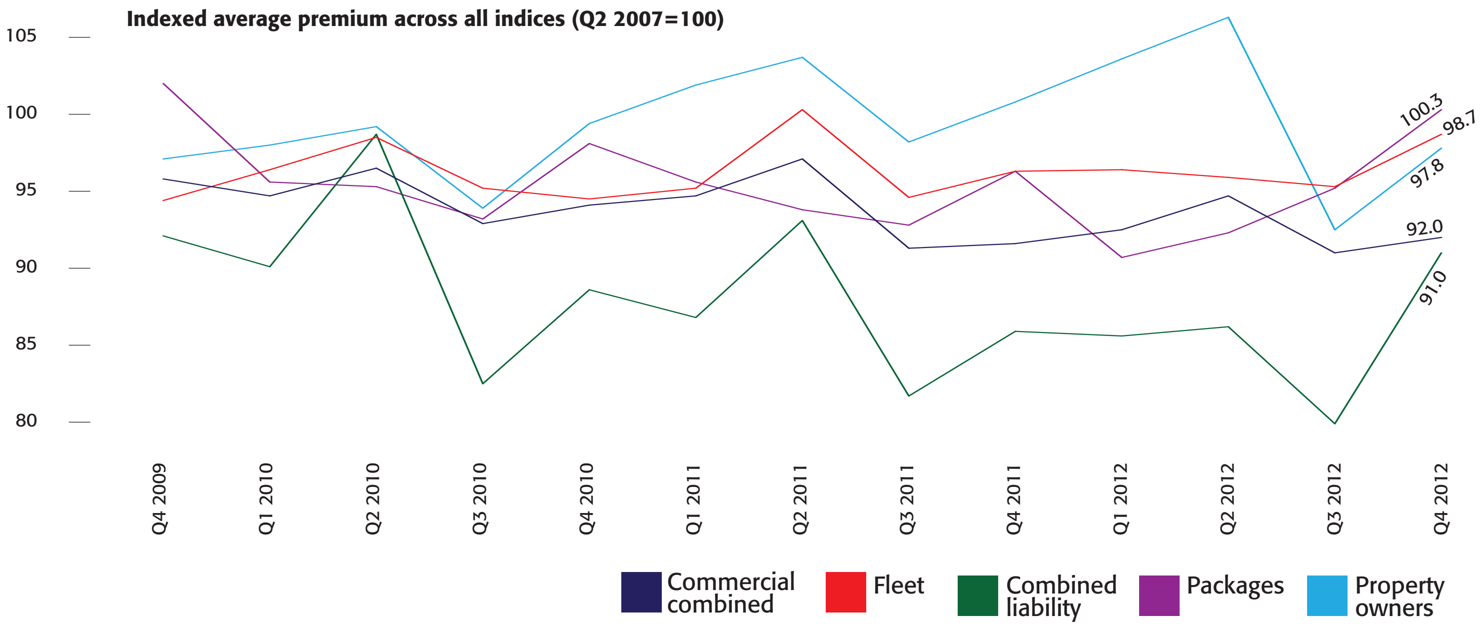
THE STATS – THE ACTURIS PREMIUM INDEX



● It is that time of the year when brokers normally wince in discomfort at the sight of more plummeting commercial premiums. Recent instalments of the Acturis Premium Index statistics have often made for uncomfortable reading with little quarterly cheer.

However, the denouement of 2012 looks to have brought a glimpse of hope for the troubled market.

Although no index posted a rise in full year average premium comparing all of 2011 to 2012, at least the quarterly performance of the five categories fared better.

Across every line Q4 2012 premiums were up on Q3 2012. In addition, fleet, combined liability and packages had all grown in Q4 2012 compared to Q4 2011 (the measure called quarterly year-on-year). In fact, property owners was the only line to register a fall for this period as commercial combined remained flat.

The biggest mover on both fronts was combined liability. It registered an impressive 11.1 point rise in the three months, as well as a 6% quarterly year-on-year increase.

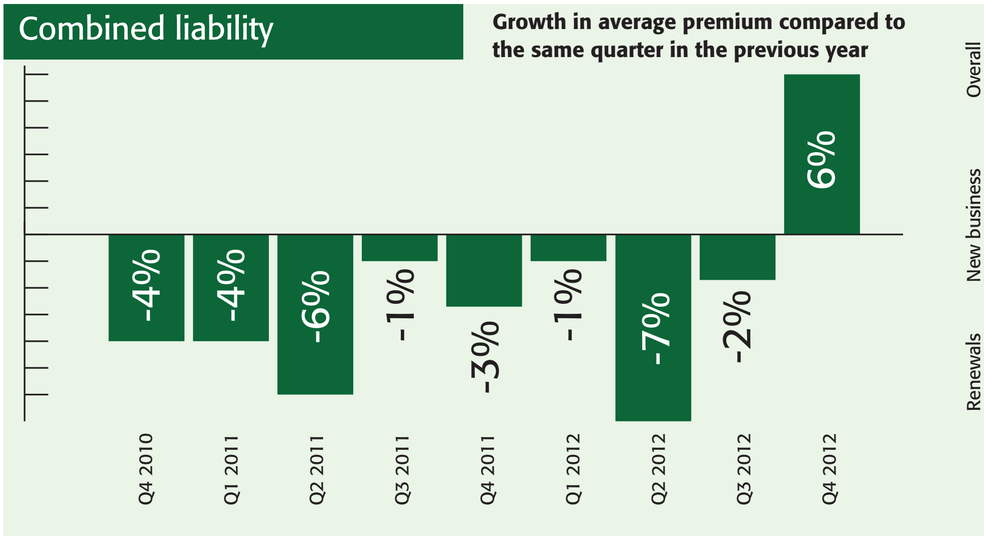
While this rise should be welcomed by brokers and insurers, Axa's underwriting MD David Williams, was quick to urge caution. He points out that every line, bar packages, still remains below the 100-point 2007 base rate.

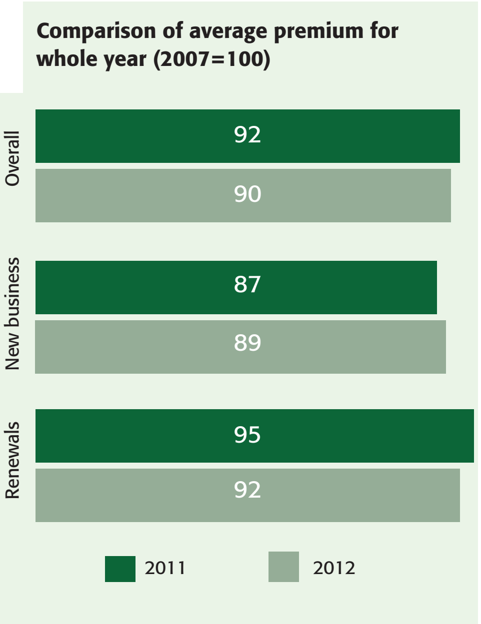
In the case of combined liability, in spite of its notable three-month premium jump, it is still nine points below its 2007 position. And it should also be noted that, historically, the Q3-Q4 transition has often resulted in combined liability premium increases.

"It just shows how rates have stupidly dropped off the planet, it's a ridiculously competitive market," he assesses. "We are still talking about rates below 2007 levels so a bit more of a common sense approach has got to be good for everyone."

Mr Williams believes that the main driver behind this combined liability upsurge has been employment liability. In particular, he pinpoints this line as having been "depressed for a long, long time", citing that a significant number of insurance companies have lost money due to its low level.

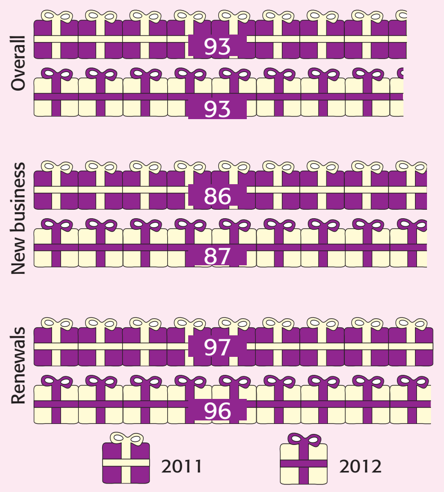
The other relative success story was packages, which also recorded growth on both a three-month and quarterly year-on-year front. ▷



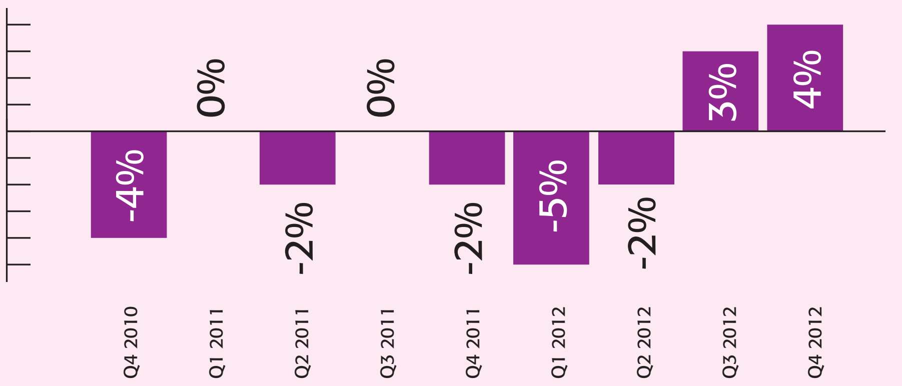


Packages

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



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



It jumped by 5.1 points between Q3 2012 and Q4 2012 and also posted a quarterly year-on-year rise of 4%. According to Acturis, this index experienced a slow start to 2012 but proceeded to enjoy a vintage winter.

Indeed, Ecclesiastical underwriting director Paul Bloxham admits the insurer has also boosted rates on the packages front. However, he adds that they have been pushed on even further than the 4% recorded by Acturis.

"Our package tends to be small care risks – sector specific for us," he explains. "We are a bit ahead of the curve on our small packages.

"These will go ahead of 4% in 2013, the trend is for upwards movement."

Having covered the top two performing lines, the rest were generally rather more of a mixed bag.

In particular, property owners posted a 3% quarterly year-on-year premium fall, despite a three-month 5.3 point rise. The Acturis analysis of its statistics attributes this to being largely fuelled by a decrease in the value of new business premiums, falling from the 99.8 of the 2007 value in 2011 to 94 in 2012.

But the technology specialists also notes: "This has been offset somewhat by a small increase in renewal average premium."

This annual premium drop has also been witnessed by Mr Williams. He acknowledges: "During 2012, property owners business was really very competitive and there were some very cheap rates going around in the market with a number of players coming in."

Conversely, however, Mr Bloxham has seen property owners premiums perform slightly more robustly. He has not witnessed rates drop off "by that extent".

"In fact, we are seeing a slight hardening," he states. "A fall of 3% looks a bit aggressive. I see a flat pick up on the property rates to reflect some of the other damage losses that we have been getting."

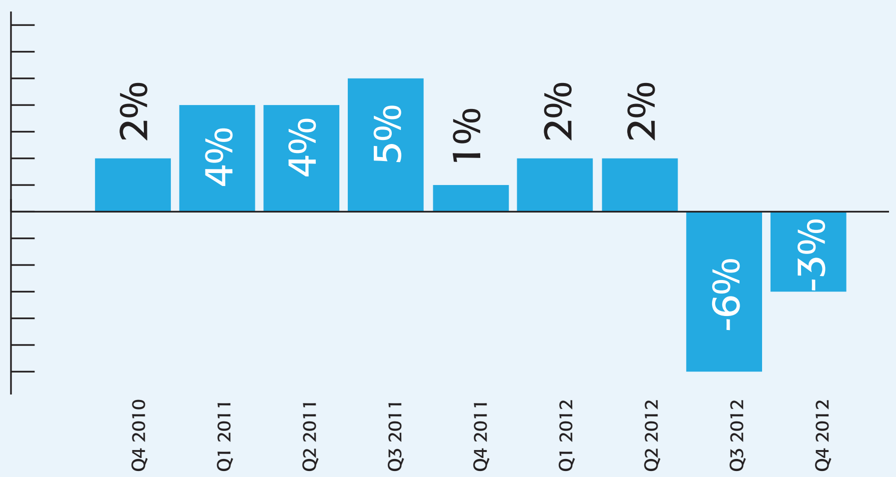
As for commercial combined and fleet, both reported more stable annual performances. Fleet saw its quarterly year-on-year premium edge up by 2% and it also grew by 3.4 points on a three-month basis. Furthermore, breaking down these ▷

Explaining the figures

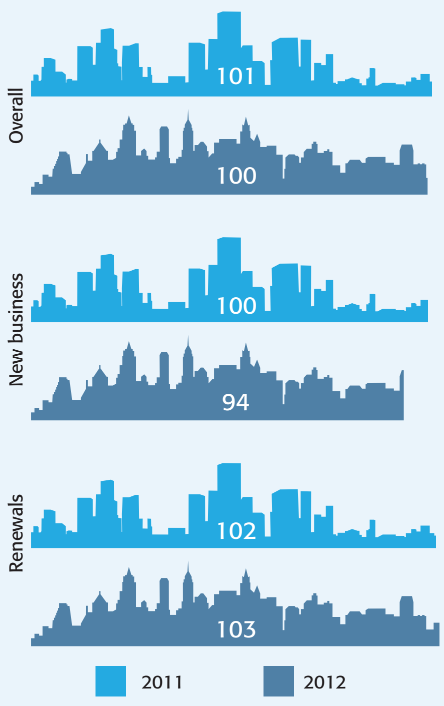
The quarterly figures, compiled by Acturis' Will Smith, are calculated on a base line from the second quarter of 2007. These three-monthly movements are supported in the text by quarterly year-on-year developments, comparing identical quarters a year apart. In this manner the analysis highlights both 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.

Property owners

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

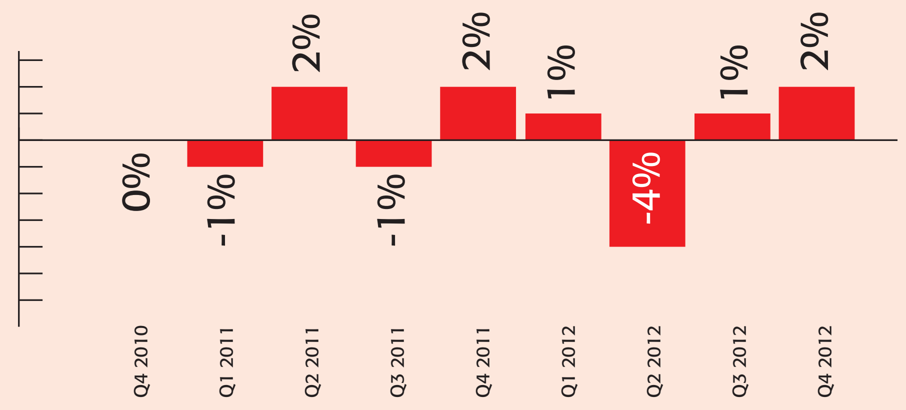


Comparison of average premium for whole year (2007=100)

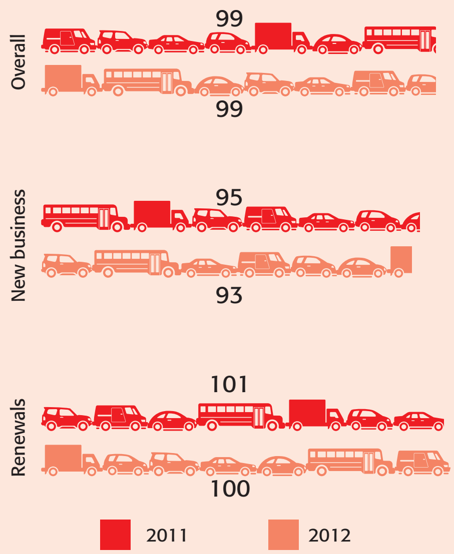


Fleet

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



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



premiums, it was apparent that brokers' age-old gripe of dual pricing had played a prominent role in fleet's pricing structure.

In terms of new business, 2012 fleet premiums had dropped by 9.6 points since 2009. On the other hand, renewal premiums have risen by 3.4 points during the same period.

Finally, commercial combined posted a flat quarterly year-on-year annual premium result, coupled with just a 1 point increase over the three months – a steady trend which Mr Bloxham has also witnessed.

"It's very much our experience, it's a flat market," he assesses.

"We are not seeing much movement, there is a lot of capacity out there as a consequence of the floods last summer."

While the market experiences of Mr Williams and Mr Bloxham – save one or two discrepancies – have largely been reflected in the Acturis results, there is always room for debate. Indeed, Ageas' head of commercial Roy Watkinson reports different performances for four out of the five lines over a quarterly year-on-year basis.

He noted rises for commercial combined (6.5%), fleet (8%) and property owners (5%) at Ageas compared to 2011 levels. Furthermore, combined liability remained flat (0%). Packages growth of 5% was the only line which reflected Acturis' own findings.

"Our numbers are quite different from Acturis," states Mr Watkinson. "Ours are based on new and renewal pricing, our new business pricing has tended to move at a similar rate as renewals.

"The market is very competitive, but we've not looked to reduce any of our rating tables in 2012 – and we've managed to carry single-digit increases on most."

As ever for the Acturis premium index, differing market perspectives abound but, crucially, what does Ageas' experience mean for brokers? Premium growth is, of course, necessary but in a flatlining economy any increase in business costs for companies is hard to swallow.

Yet, Mr Watkinson is confident in the approach Ageas has taken with its brokers. "We're very keen to talk to our brokers about low-level increases and, as our account is largely SME, we're finding that the modest increases we're looking for are acceptable to our brokers, our policyholders and ourselves.

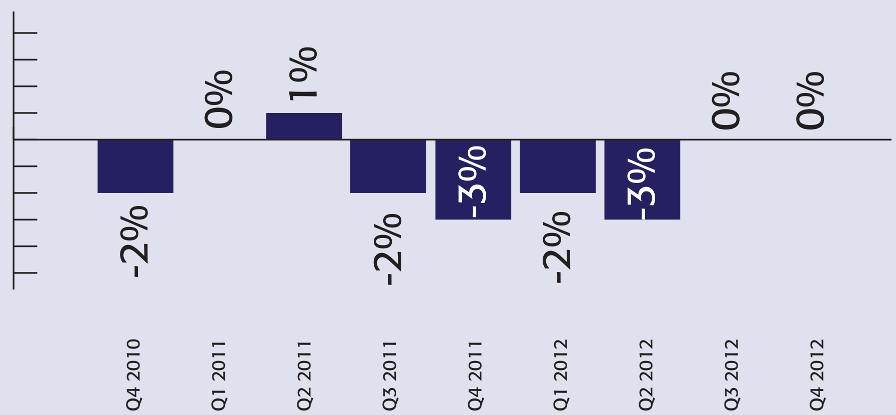
"Increases will tend to be a bit higher on some trades such as leisure, but we are trying to carry a small increase in most cases, if possible."

In the face of rising commercial rates communication is key. And Mr Bloxham also identifies the need for brokers to "pre-warn" clients about future rises.

"Clients are always budgeting. It's about raising awareness about the potential for some upward rate movement, which has not been the case for a number of years," he admits. ■

Commercial combined

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



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