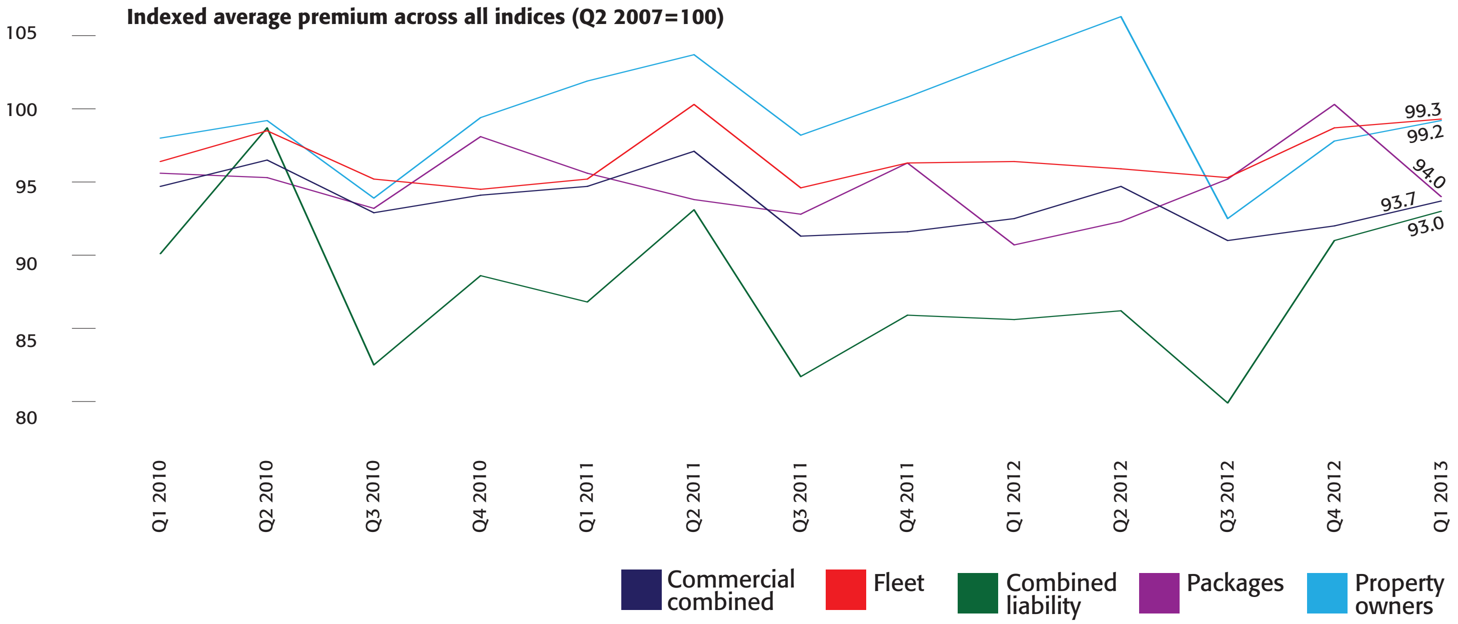
THE STATS – THE ACTURIS PREMIUM INDEX



● Whisper it quietly but the latest Acturis Premium Index may have signalled a turning point in the market.

Although brokers and insurers have come in recent years to view the prolonged soft market as par for the course, the statistics indicate that an upturn could well be brewing. Across the five lines covered, packages was the only category to record a premium fall compared to the quarter before. Furthermore, on a year-on-year basis, all indices – bar property owners – posted annual rises.

Indeed, the Q1 2013 average premium value for all five categories combined is 4% greater than its 2012 equivalent.

"On the whole it's good news for hard-pressed brokers and insurers," states Acturis, as part of its research briefing.

In a similar vein to the previous Acturis survey (see *Insurance Age*, March 2013), combined liability was once again the biggest mover on both a quarterly and annual front. Three months ago, this line of business posted an emphatic 11.1 point quarterly rise between Q3 2012 and Q4 2012, as well as a healthy 6% annual increase.

For the latest survey, although not as resounding, quarterly growth edged up from 91 to 93. However, this still was a turn up for the books as the Q4 to Q1 transition normally struggles to record a positive increase. The indexed value is now at its highest for almost two years, dating back to Q2 2011, although it is still below the Q2 2007 baseline of 100.

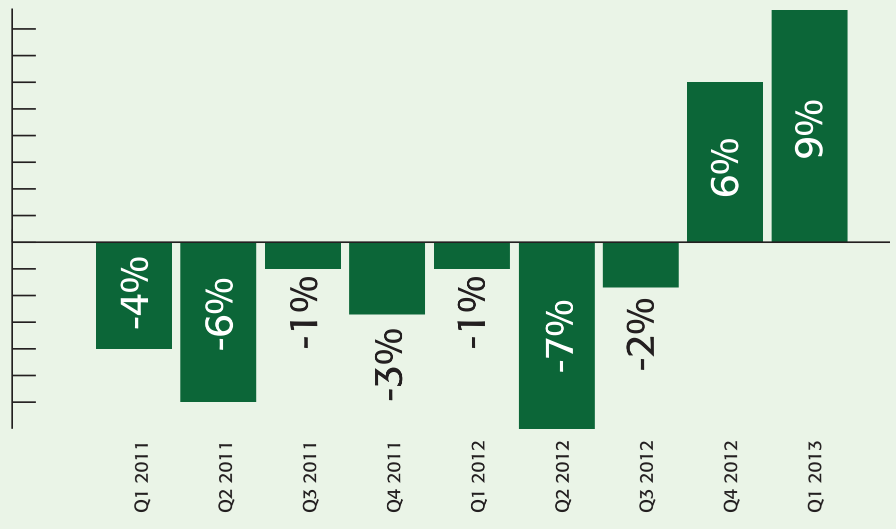
Employment and public liability claims have both been cited as the key drivers behind the positive movement, with injury claims and the litigation environment still impacting heavily.

"There may be an element of this [increase] being a result of the difficult economic climate," says Neil Clutterbuck, director of underwriting and technical, commercial at Allianz.

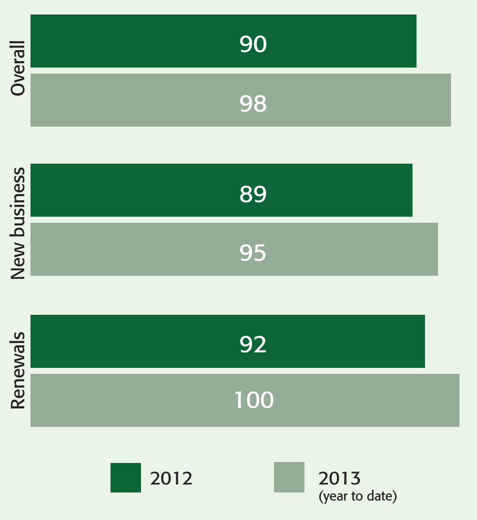
"Perhaps the investment made by companies around risk management has not ▹

Combined liability

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

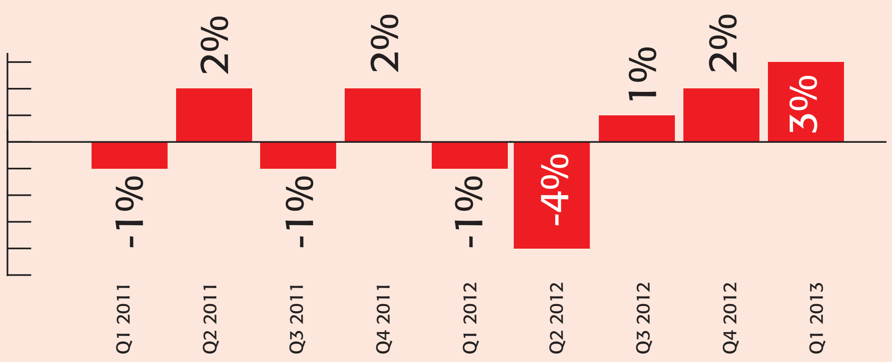


Comparison of average premium for whole year (2007=100)



Fleet

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



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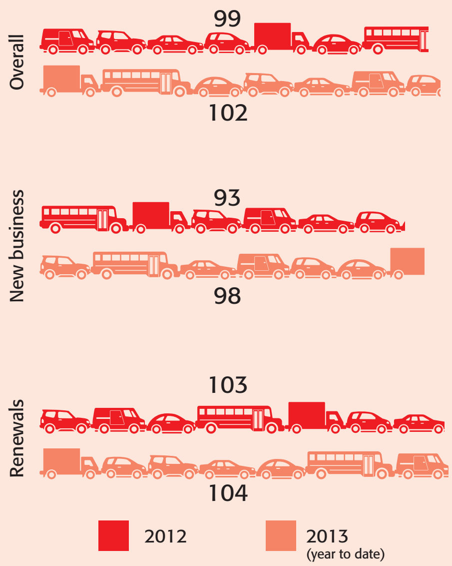


been as high as it should have been, leading to more incidents occurring, not to mention an element of fraud or exaggerated claims in certain sectors."

Meanwhile, fleet saw its quarterly rate edge up by 0.6 points to 99.3 for Q1 2013, to record the third consecutive quarter of quarter-on-quarter increases. Annual growth also came in at 3% with year-on-year rates showing that both new business and renewal premiums in this quarter were ahead of overall 2012 values.

And commercial combined was also a positive mover on both a quarterly (1.7 point rise) and annual (1% growth) front. Despite this, Acturis notes that commercial combined is far from out of the woods. "Looking at the index over six years however, we see a sorry tale with a trend of consistent mounting reduction in average premium," comments the technology specialist.

Nevertheless, Simon Cooter, commercial lines director, Covéa, has witnessed "definite signs" of rate hardening in the market. And he believes that the upsurge has proved that the insurance cycle is in fact "alive and well".

"A number of commentators have said that the cycle is dead and that there is a new paradigm," he explains. "[But] the cycle is here to stay."

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.

"It would be wrong to say we are in a hard market but, when you weigh everything up, momentum seems to be building."

He adds: "I can see the light at the end of the tunnel and I am now pretty sure it's not a train coming towards us."

Also edging up on a quarterly basis was property owners, which registered a 1.4 point rise to 99.2. However, optimism regarding this growth was somewhat dampened by the fact that its premium level remained 4% lower when compared to the same period last year.

"Here the news is more depressing and this gels with what we hear from brokers around the country regarding the intense competition for this business," summarises Acturis.

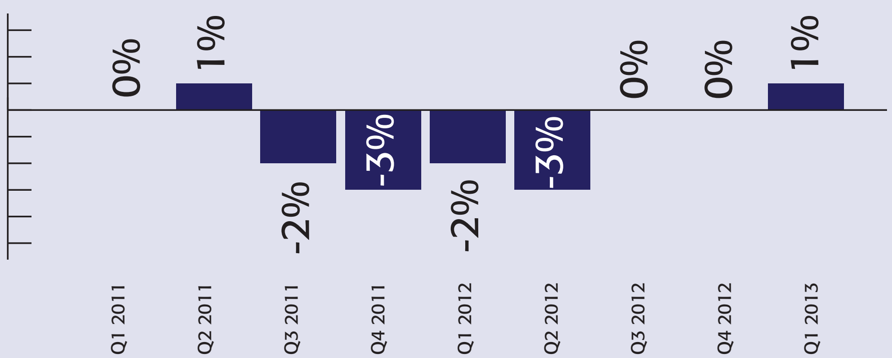
"As with previous years, Q1 2013 has seen little movement in average premium from Q4 the previous year."

Moreover, the final index, packages, is the only line not to post a quarterly increase. Instead it recorded a sizeable 6.3 point fall to 94. Yet Acturis attributed this movement to being "largely cyclical" and that "similar movements" have been recorded in previous years.

Indeed, the year-on-year comparison painted a more positive picture with a 4% premium jump compared to Q1 2012. In fact, the statistics show that the last three quarters have demonstrated growth of some 4% compared to the previous year's corresponding quarter. ▹

Commercial combined

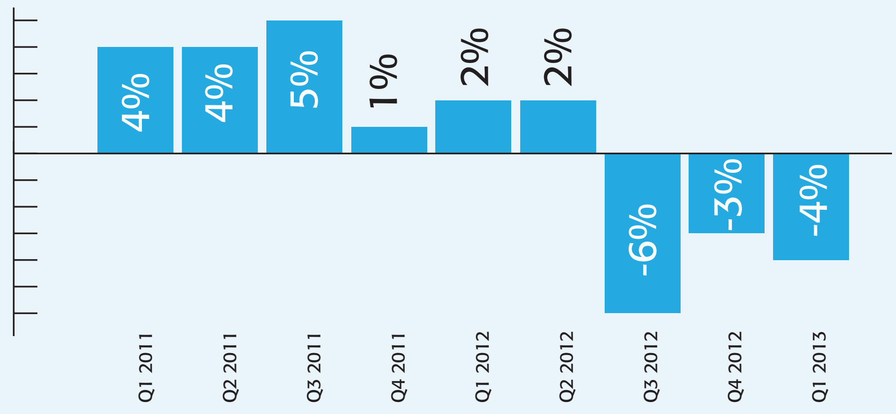
Growth in average premium compared to the same quarter in the previous year



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

Property owners

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



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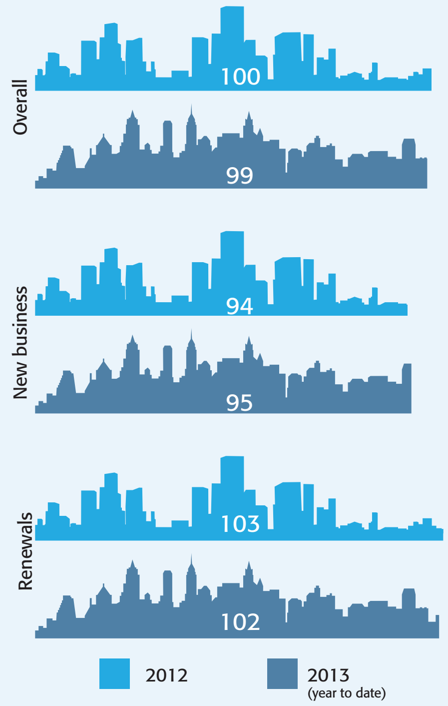


Thus, overall, four of the five lines saw their quarterly premium rates edge ever closer towards the 2007 base rate of 100.

And looking ahead over the next year Covéa's Mr Cooter expects more of the same in terms of rate rises continuing to seep through into the books.

"Twelve months ago I would expect small rate increases for SME business, fleet and also rate increases on underperforming commercial cases," he assesses. "Now we are seeing rate increases across whole sectors."

Facilitating these rate rises, Mr Cooter expects insurers to continue to pull back from areas they deem to be less profitable over the coming months.

Over the past year brokers have already witnessed RSA abandoning the motor trade market, Ecclesiastical withdrawing from the UK broker motor market and Aviva splitting from the likes of Willis Network and Broker Network.

Mr Clutterbuck largely shares the same market view as Mr Cooter regarding prospective rate changes over the coming 18 months. He predicts that rate increases will flow through for all five lines during the second half of 2013 and into 2014.

However, he believes that the days of some 30% to 40% rate hardening are unlikely to return any time soon. "From 2006 until 2011, I would argue these numbers were, in the majority of cases, moving backwards and they still have quite a long way to come forwards," he evaluates.

"Insurers' combined operating ratios suggest there's still a continued need for rating and risk selection to be addressed."

And what of brokers? The challenge, as ever, is to explain these commercial rises to their clients who continue to operate in a difficult, albeit improving, economic environment.

For Mr Cooter, as long as the industry steers clear of exorbitant rate rises, such as the huge hikes witnessed just over a decade ago, and instead delivers needed but manageable rate rises then it will be serving the interests of good clients.

"The speed the market turned then really damaged the reputation of the insurance industry and customers were left struggling to cope with massive increases," he comments.

"If premiums go up in a clear way for a period of time, clients would accept that."

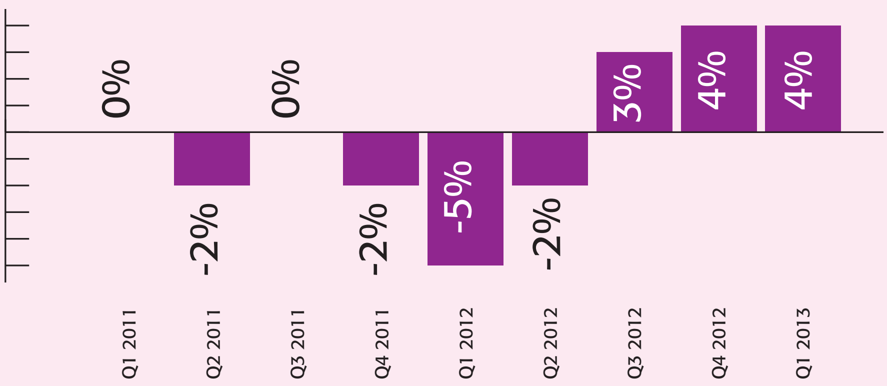
He continues: "They know that overall premiums have been coming down for a long time and if they start edging back up everyone can see the reason why."

As 2013 reaches its half-way stage, there appears to be quiet optimism, backed by the latest Acturis statistics, that rate hardening may no longer be an unattainable fantasy.

Yet, irrespective of market hardening or softening, Mr Cooter concludes: "It's always very well saying what's good for us but ultimately we will only prosper if our customers want to do business with us." ▪

Packages

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



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