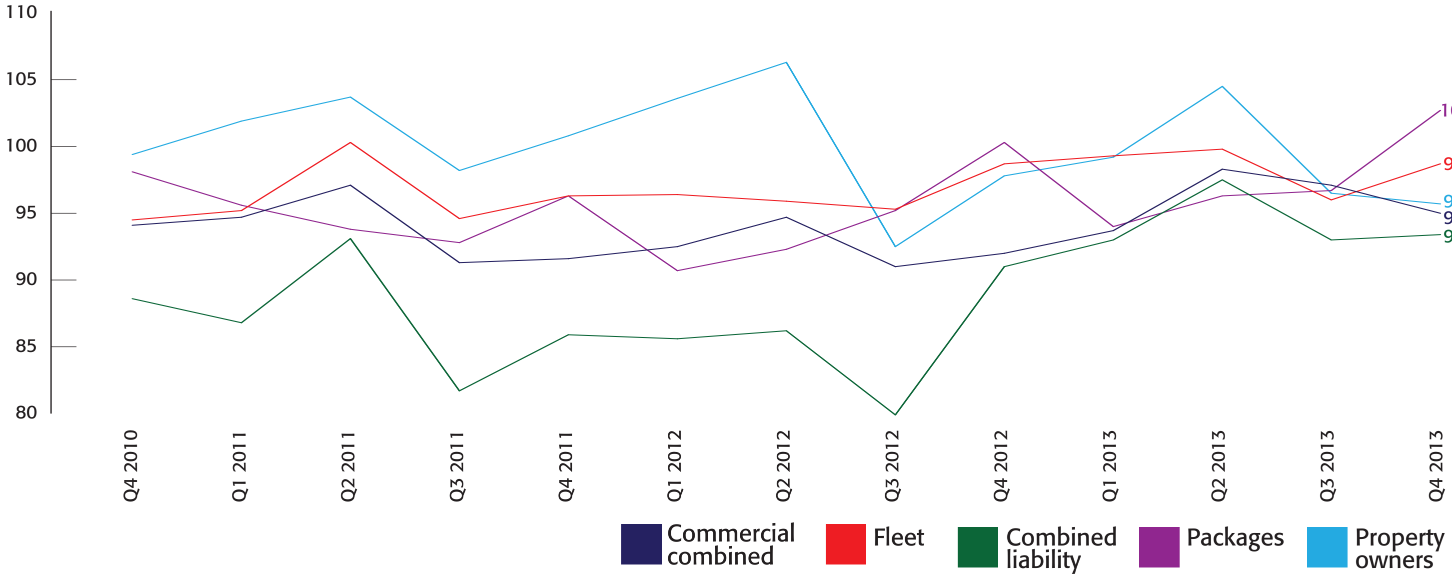
THE STATS – THE ACTURIS PREMIUM INDEX

Indexed average premium across all indices (Q2 2007=100)



● The trends in the Acturis Premium Index statistics for the third quarter of 2013 were seen as encouraging for the market. And the positivity has only increased in the fourth quarter, as almost all the indices – consisting of combined liability, commercial combined, fleet, packages and property owners – saw average premiums for the entire 12 months reach their highest values in years, and in some cases, their highest values since Acturis began recording the data.

Property owners was the exception to the positivity rule seeing a fall in the three month period, a decrease in the comparison of Q4 2013 with Q4 2012 and a reduction in its full year figures. In the other indices, while there were a few blips, almost everything improved particularly the measure of average premium for the whole year which was up for each line of business.

David Greaves, head of commercial SME at QBE, stated that he agreed with the figures from Acturis, "in general terms".

The property owners index, particularly pertinent at the moment given current issues in the market surrounding flooding, is at its lowest full-year value since 2010. The data shows a decline of nearly 4% year-on-year in new business premiums within the index, although renewal premiums did inch up slightly compared with 2012 values.

This reduction in new business was blamed for the fact that the 2013 indexed average premium showed a small decrease on its 2012 value, a performance Acturis described as "disappointing".

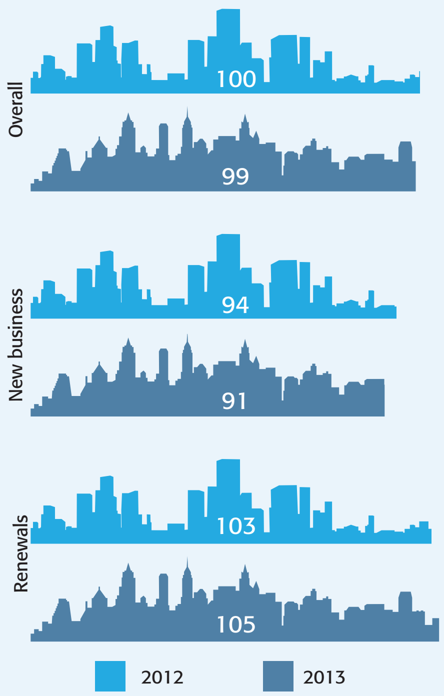
And Charles Earle, chief executive at Arista, warned: "There ought to be some concern over the new business pricing approach that insurers are taking on property owners.

"Perhaps the weather we have experienced around the turn of the year will now be prompting some reflection on current pricing in this product area – where economic news would encourage us to believe it's growing so we're not fighting over a shrinking cake."

However, the other Acturis indices provided plenty of reasons to be cheerful.

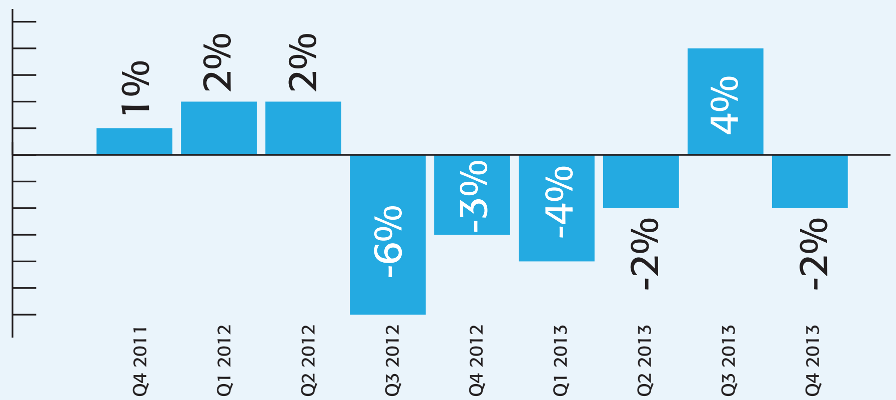
Comparing Q4 2013 with the same period of 2012, fleet was flat. But for the full year it saw a small rise in average premium, driven by increases in both renewal and new business. This resulted in a 2013 indexed average

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



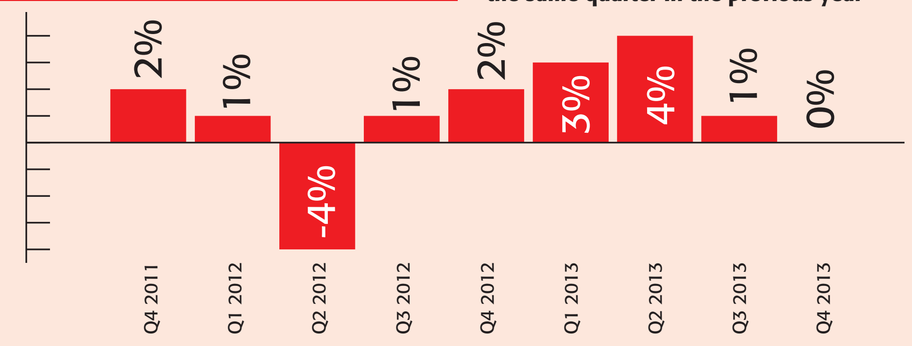
Property owners

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



Fleet

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



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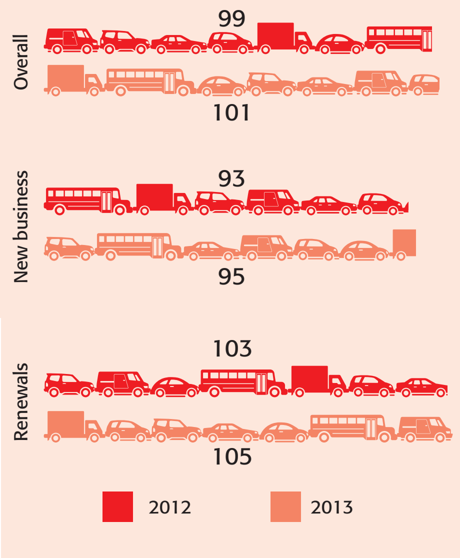

premium value of 100.9. It is the first time the index has seen a value greater than 100 in the last five years and in fact represents the largest value since the index started.

Upheaval in the fleet market throughout 2013 has been well-documented in these pages. Indeed in last month's stats, the Keychoice ratings revealed that prices had moved up and down seemingly at will over the last 12 months. When the 2013 Q3 Acturis indices were published, optimism around fleet was scarce, with commentators wary about the sustainability of pricing in the market.

But the green shoots of hope are definitely sprouting. One industry figure said companies were starting to hire in more vehicles and expanding fleets as time goes on, a move which the source claimed was "primarily linked to the improving economy". The fact that the index has moved above 100 has to give some reason for confidence anyway.

Moving into more solidly positive areas of the market, and packages again showed significant improvement, continuing the trend that was first reported at the end of 2012.

In addition, 2013 saw increased comparative quarter-on-quarter growth in each part of the year (see below), which is something special given the competitive nature of this market segment. All in all this has resulted in the full-year packages

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.

index reaching 95.1, the highest value seen in the index since 2009.

QBE's Greaves had some reservations about this finding, cautioning that certain elements of packages may have been "stripped out" over recent months.

"Things like pubs and restaurants are not being included, I would suspect that we are seeing less of that business being put into general packages," he explained.

"It's good news for the industry – but it's not pure blunt rate."

The application of rate and how it is done has been an issue for the industry for some time now. Over the course of 2013, a number of insurers called for a more "sensible" approach to pricing, and over most of these indices, the figures have gone up.

However, the indices measure premium, so changes can be a function of rate or exposure movements, or both. And, as Greaves pointed out, application of rate was not the only thing taking effect. "One of the things we as a business have seen change over the past six months is the exposures," he explained.

He gave the example of commercial combined, where QBE's exposures went up by nearly 6% in June. Greaves stated that this could be connected with retailers "stocking up for Christmas", and termed the growth a "significant jump".

The increasing exposures may go some way to explaining the positive trends demonstrated in the Acturis commercial combined index, in which each quarter of

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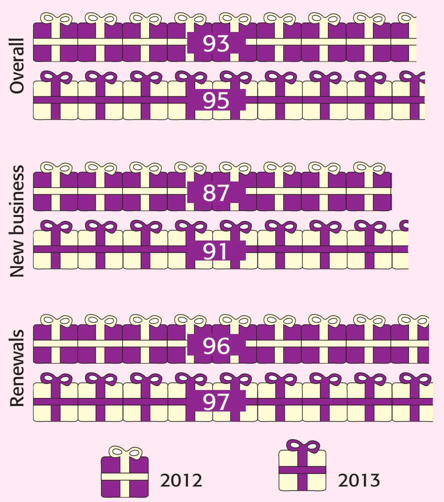
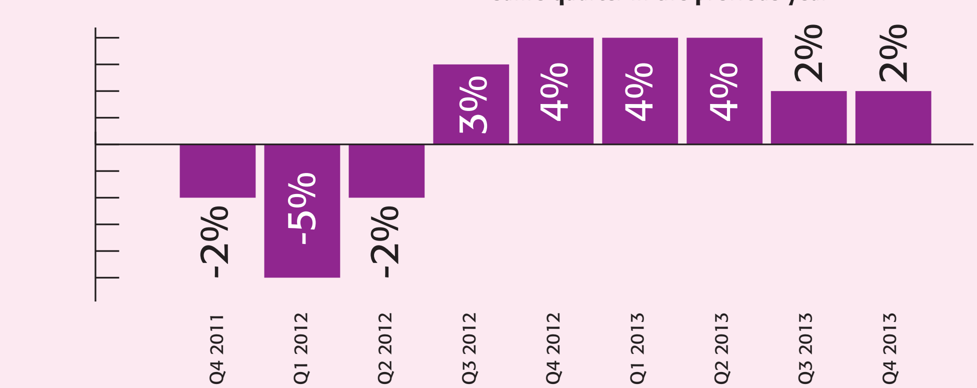


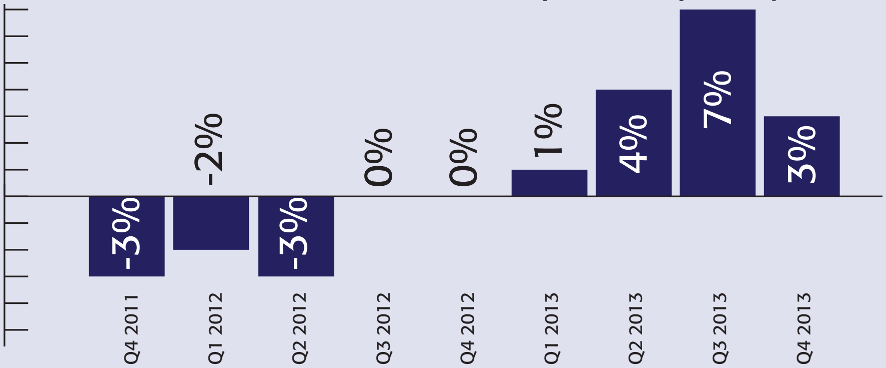
Packages

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



Commercial combined

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



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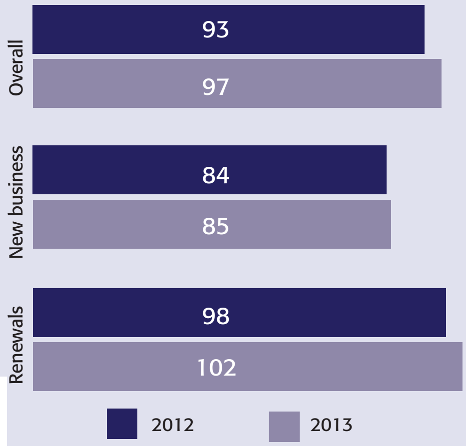


2013 saw an increase on its 2012 counterpart. This in turn resulted in an increase in the whole-year average premium from 93% to 97%, the highest value the index has reached in the last four years.

Arista's Earle, while acknowledging that the general trends represented in the indices were largely representative of reality, remarked: "It's not possible to judge the effects that changing exposures are contributing.

"There appears to be stronger progress on renewal pricing on products that have a third party injury or damage exposure – and there needs to be more. I hope no one is taking assumed benefits from the changes to liability claims management before they've actually happened."

Indeed, the Acturis combined liability index saw the largest gains of any index, with average whole year-on-year premiums up nearly 10 percentage points for 2013 over 2012. The overall improvement in the combined liability segment was driven largely by renewals. The renewals index went from 91.5 to 104.2 between 2012 and 2013.

All-in-all, there were several pleasant surprises contained within this quarter's indices. And market commentators were mainly in agreement with what the figures showed – although one MGA-owner, who did not wish to be named, said: "From what I am hearing across the market these seem a little too positive in their stance." The source continued to state that they were "hearing the message that reductions are still out there".

Earle on the other hand said: "The general trends, if not the precise percentage movements, indicated by the report on each major product are a fair reflection of activity in the market and our own overall experience in Arista."

However, he made the observation that in most product lines the statistics showed stronger and more disciplined approaches to improving pricing strength on renewals than on new business.

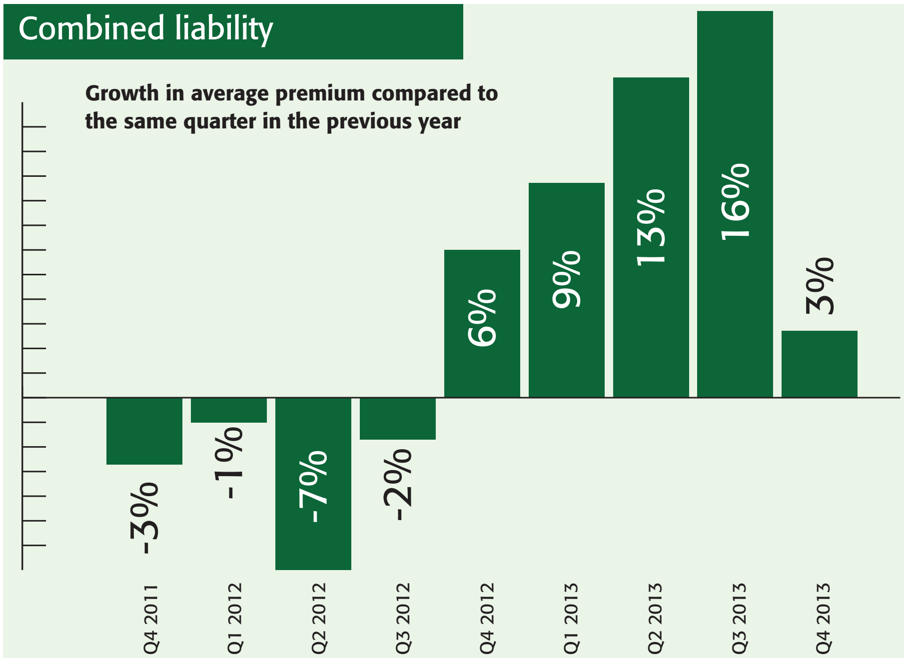
And according to Earle, that is something the general market will have picked up on. He had several questions around this approach. "Do insurers consistently measure what's happening and appreciate the impact that significant dual pricing of this sort has on profitability and portfolio strength?" he queried. "Just how do insurers capture and use data on actual premiums charged in relation to their own technical pricing? Are insurers actually measuring the pricing strength of new business, so that they understand the effect it has on the pricing overall?"

Earle concluded: "At Arista we have got some of that right – and I say some because it's an area where we cannot be complacent, I am sure we can improve."

And Greaves was upbeat about the message contained within the figures. "Generally it's positive news," he claimed. "We are slowly coming out of the recession, which is good for us, good for the brokers and good for the end consumers." ■

Combined liability

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



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