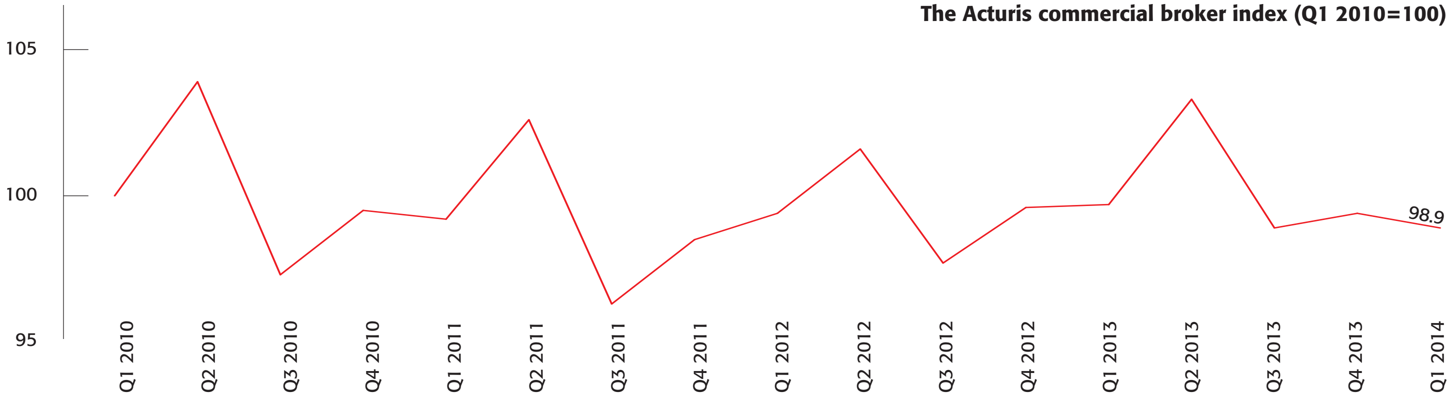
THE STATS – THE ACTURIS PREMIUM INDEX



● The revamped Acturis Premium Index, with a revised first quarter 2010 baseline, now also includes a new measure – the Acturis commercial broker index – designed to represent premium movements in a typical broker's book of commercial business.

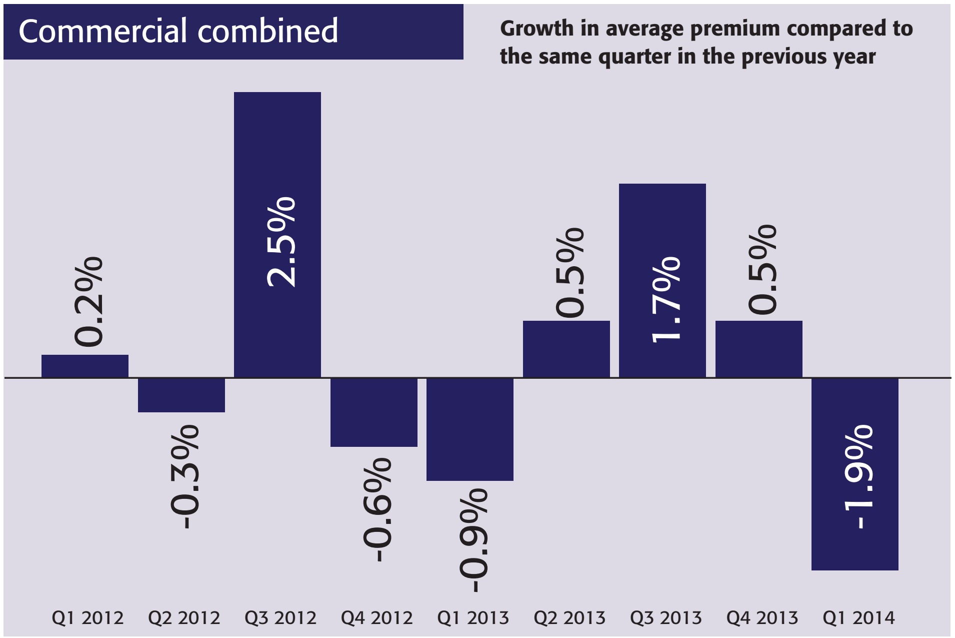
This index, weighted across five lines of business (see box on page 32), is fascinating. In essence it shows that since the first quarter of 2010, a typical commercial broker will have found average premium has not increased at all, in fact it has decreased to 98.9% of the original.

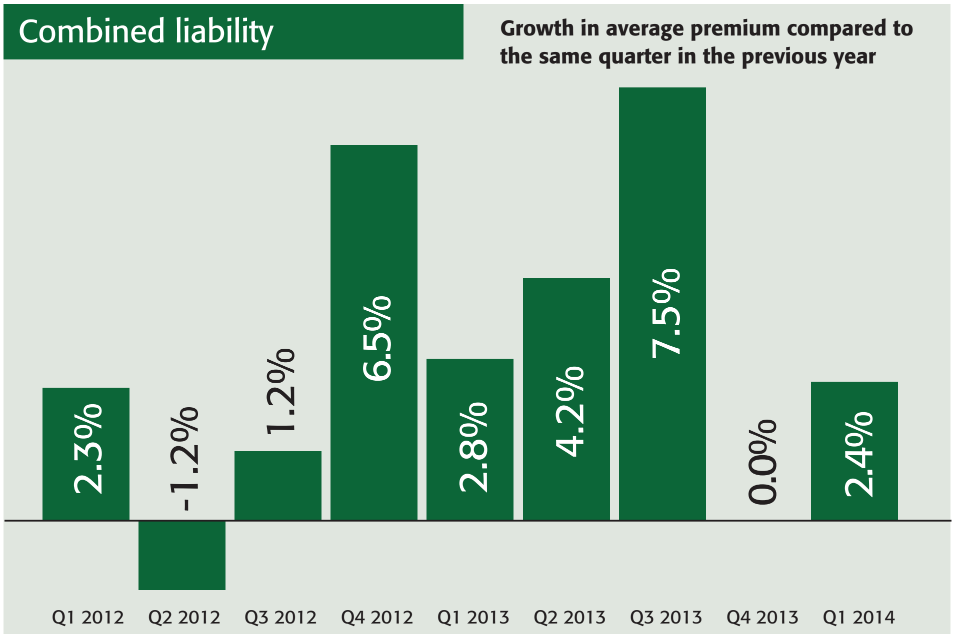
Within premium there are two elements – size of risk and rate – so the fall could have been driven by movements in either part. But no matter how it has occurred it makes for a grim outcome. Given commission rates are likely to have been constant at best for brokers, then the pressure of increased regulatory fees and general inflationary costs has had to be met without any natural uptick in business.

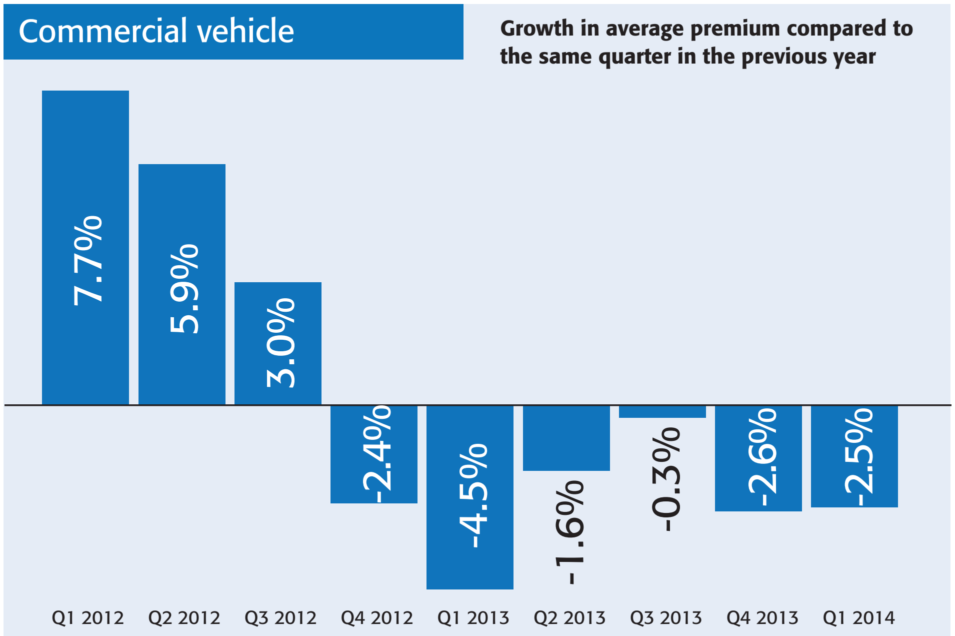
That is not to say there will have been no winners during this period. Those who have managed to increase their policy count through gaining new customers or cross-selling to existing clients, or both, will have succeeded in growing their business. What is perhaps most worrying though is the very recent trend. Indeed, in the second quarter of 2013 the index hit a near record high of 103.3. It looked then that rate hardening was starting to take real effect in the market but, according to the data, it was all an illusion.

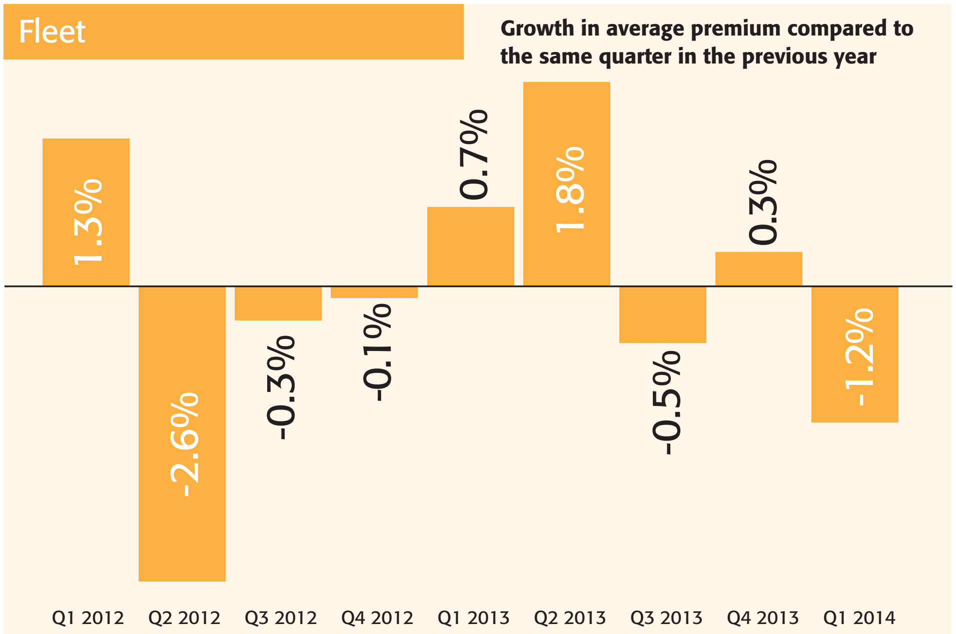
Robert Marshall, managing director at Trident Insurance, explains that the main issue is insurers unable to raise rates. Agreeing with the figures, he said: "In a saturated market with new guys coming in, then you are fighting a losing battle if you think you are going to stick your head above the parapet and put up rates. Even if you know it is the right thing to do."

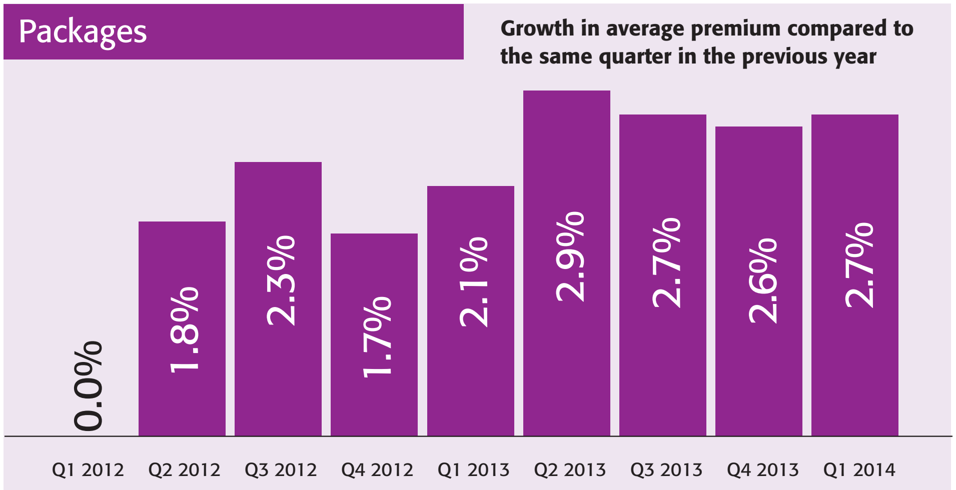
And from the insurer side, commercial lines director at LV Mike Crane agreed that going by his conversations with brokers ▹











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.

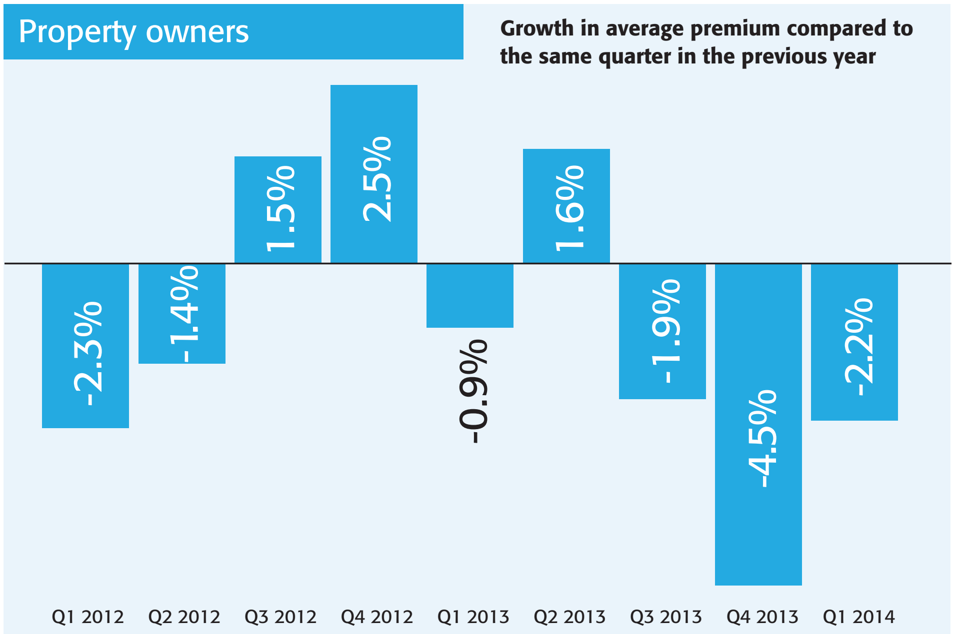
the new index was accurate. "Brokers and insurers are getting some rate on smaller cases but if they are under competition, particularly on the bigger cases, then they will compete harder," he commented. "That is probably why the balancing out is showing that overall it is not really moving the dial at the moment."

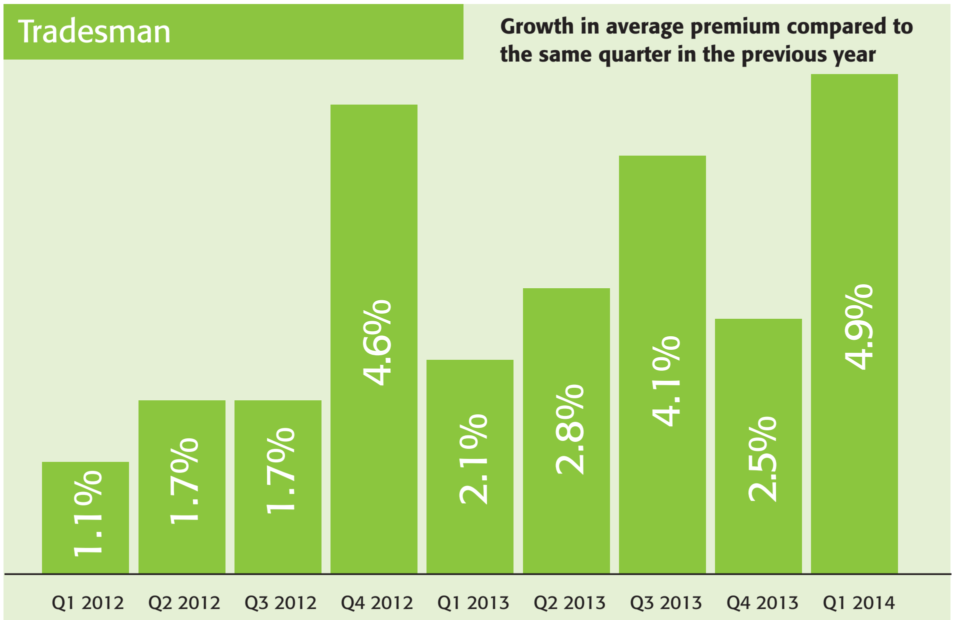
The other interesting factor has to be the second quarter effect. As mentioned above, Q2 last year saw a near record high. That accolade rests with Q2 2011 when the index topped out at 103.9. Indeed, as the almost Toblerone-shaped graph on page 30 makes clear, there is always a second quarter spike.

The words of Axa's David Williams offer some insight. Williams, managing director for underwriting at the provider, highlighted that the first quarter is where the psychological impact of new targets kicks in.

"You start off the year and you've got nothing but a mountain [to climb]," he pointed out. "You are not confident and you don't want to lose business. Don't get me wrong, you never want to lose business, but success breeds success."

Accordingly he was hopeful that the Q2 bounce will occur again followed by further hardening in the following quarters. "If you are in Q3 or Q4 and you have a target, not on new business but on your existing account, if you have an 8% rating increase and you've carried it then you are more bullish. You don't worry so much about potentially losing a big case in November because you know you have a bit of a cushion." And he was clear that the market needs to move. "Everybody knows that you need to have increases," he maintained. Of all the lines it was commercial combined – which came out at 96.5 and down on the same quarter of 2014 – where he disagreed most with the statistics. According to him Axa is pushing through sustained rate rises leaving him without "an explanation" for the decreases measured. "It just looks odd," he surmised. However, on combined liability he called ▹





the figures as being "about right", adding: "Anything that has got an injury element particularly needs to cover inflation."

Time to turn now to another new index in the stats: commercial vehicle. Despite the quarterly fall it still achieved a score of 120.9, the highest out of all the indices and far ahead of the Q1 2010 baseline. But LV's Crane was keen to highlight more upwards movement was still needed. "All that [120.9] is doing is tracking what is going on with claims inflation," he summed up.

And on Fleet, which came out at 100.7 – basically it has barely moved since Q1 2010 – he suggested the tendency for annual rebroking could be a factor. "Fleet business will tend to go into the market much more frequently than some of the other classes," he noted. Other market commentators suggested the figure was too low. It is perhaps the most idiosyncratic of all lines where individual risks are truly analysed for their own cash-burning or profit-making potential, meaning that the average would not necessarily reflect any given client's experience. Another suggestion was that the introduction by several insurers of mini fleet products could also be impacting the overall movements. If this last point is the case then the index will certainly be one to watch in coming editions. Most insurers would privately admit that when launching something new it is very difficult to get the pricing right and thus developments could well be on the cards.

Packages stands out as one of the few lines that really has seen sustained market hardening. According to Acturis' data it performed strongly in the quarter and has done so since the middle of 2012. There is no doubt the increases, while far from meteoric, will have been welcomed by brokers although Williams sounded a note of caution. "The market is all over the shop," he counselled. "If you look at individual classes you see a massive divergence."

In contrast to this strong performance came property owners. One could be forgiven for expecting that the recent travails of three quarters in a row each coming in below their counterpart in the previous year and an overall figure of just 94.6 would have insurers wailing and gnashing their teeth. Indeed, Acturis themselves went so far as to warn that the ongoing falls give "further cause for concern at the beginning of 2014". However, it appears to be the case that profits can still be made and across the board the refrain remained that even though the market may appear to be a saturated it is likely to continue to attract new players. Further year-on-year falls in the second quarter figures would not come as a surprise.

Another new entrant concludes the whistle-stop tour of the first quarter figures. In keeping with the sentiment for property owners, Marshall is confident there will be yet more insurers competing for business. "There are more complex products available online from direct providers and there are more personal lines underwriters moving into tradesman due to loss ratios," he argued. The line may have been the best performer with a year-on-year increase of 4.9% but ironically that could end up being its downfall. If premiums are going up due to rate rises or extra demand for cover then even more providers might be attracted to the market.

So what of the future? "You have still got a lot of people very hungry to grow commercial business and that is going to mitigate against it [rate] going forward," concluded Crane. It seems curious but over the past two editions these pages have been full of upbeat noises as the rhythm of market hardening seemed to be picking up speed. It is far from having crashed but its fragile nature is clear to see. The challenge for brokers will be maintaining a quality service. For Marshall, the real danger in the focus on price is of a deterioration in quality. "You cannot keep on having a reducing effective market price when you take inflation into account without having to start to remove certain parts of cover," he warned. And, at the risk of ending on a downbeat note, he said he was also far from convinced that brokers were about to benefit from a booming economy which would help to counteract the lack of rate rises and push up average premiums. On the economy he surmised that the recovery was just "hype" that "will get worse as the election gets closer".

"At best all we have done is get to a plateau that we didn't have previously, it was just a slippery slope all the way down." ■