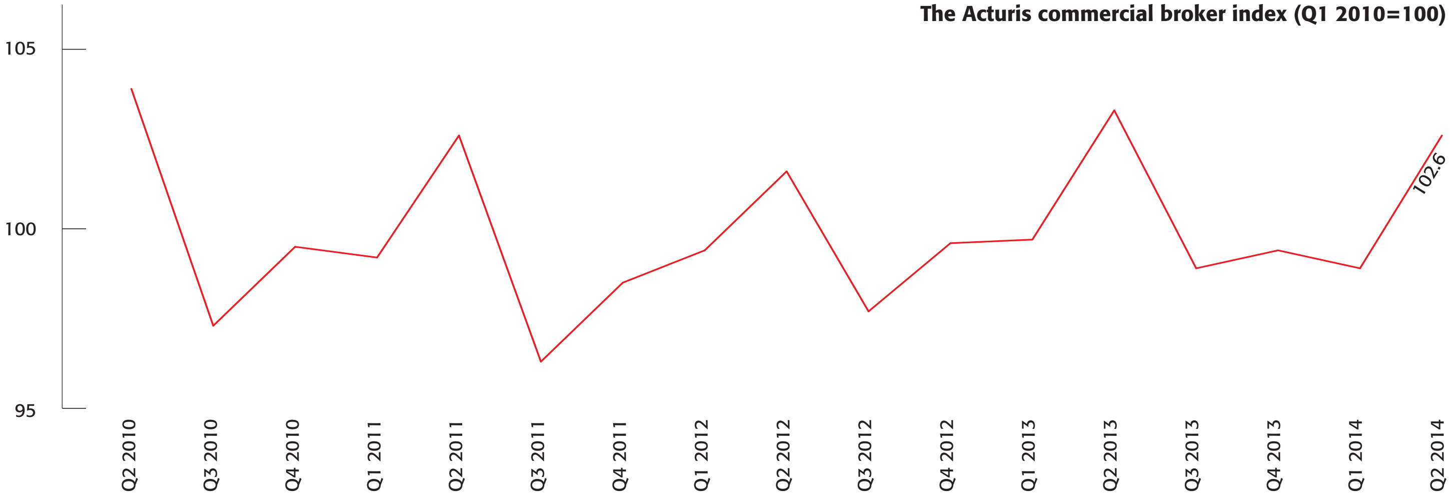
THE STATS – THE ACTURIS PREMIUM INDEX

The Acturis commercial broker index (Q1 2010=100)



● The recently reformatted Acturis indices have delivered a mixed report on the movement in average premiums in the second quarter of 2014.

On the surface there was the illusion of good news. Almost all lines went up compared to the first three months of this year. But arguably that masked the true situation.

The most recent change from Acturis – unveiled in the June edition of *Insurance Age* – was the creation of a commercial broker index which aims to represent premium movement in a typical broker's book (see box on page 36). And, as the graph above shows, this measure also spiked in the second quarter. The sad truth though is that, despite the rise, premiums were still below the levels seen a year before, down 0.7% to be precise. Measuring movements on a yearly basis is arguably the best way of setting comparable risks against each other and so this 12 month fall can only be seen as bad news for brokers.

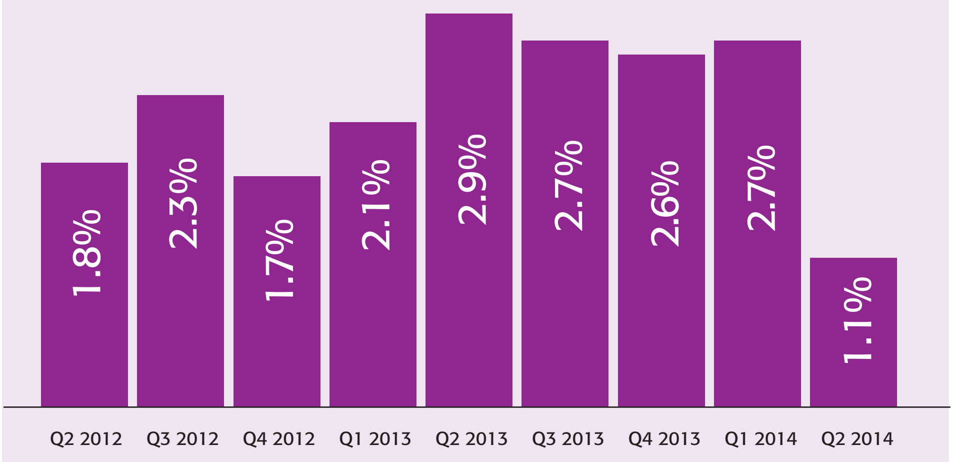
Looking at these comparisons of the second quarter in 2013 with the same period of this year, commercial combined, fleet and property owners all showed signs of struggling. Tradesman and package business were the star performers on the upturn front and there were green shoots of growth for combined liability and commercial vehicle business, albeit often small in nature. In summary then, a varied outcome that is open to interpretation.

In the commercial sector insurers said they were seeing growth. Mike Crane, commercial lines director at LV Broker, commented: "The results for commercial lines reflect what we are seeing and we are seeing a bit of rate increase."

The numbers reported by Acturis are a combination of both level of rate and size of risk. Thus a movement in either impacts ▹

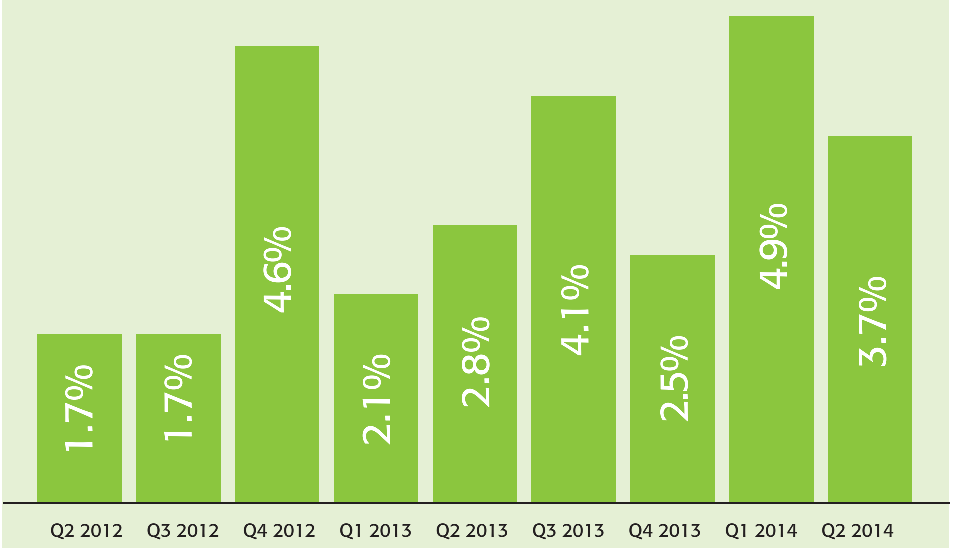
Packages

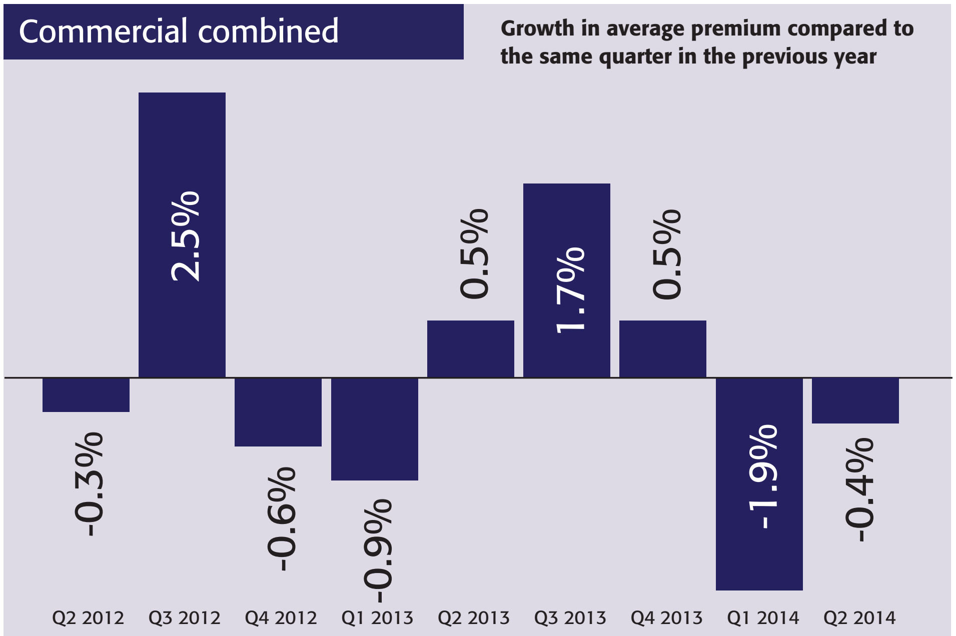
Growth in average premium compared to the same quarter in the previous year

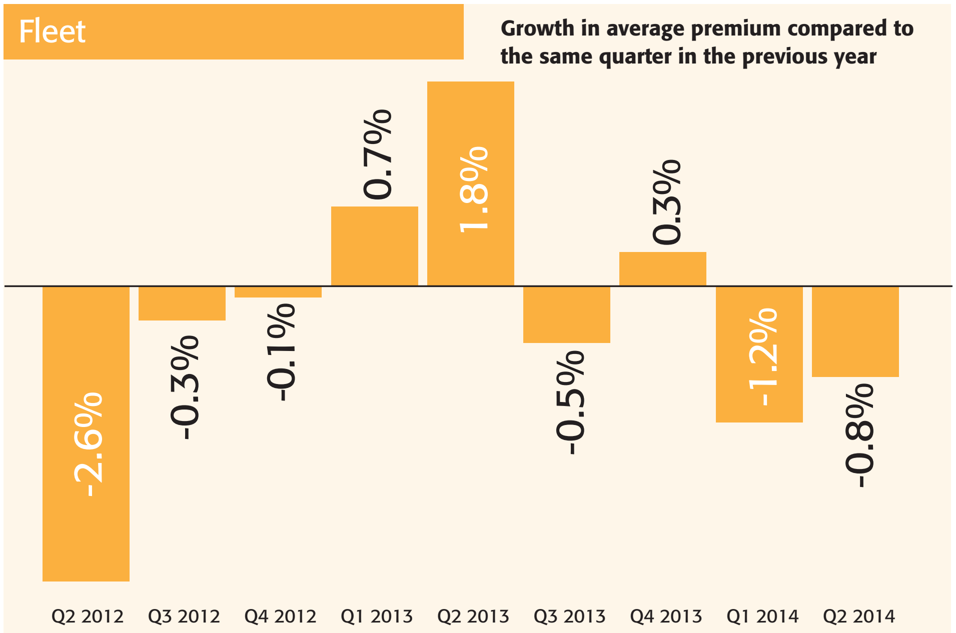


Tradesman

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







the final figure. Crane had one suggestion as to why the graphs were turning out in their current fashion. "We've seen the competition for bigger premium costs to be quite high," he admitted. Perhaps then rate is being applied across the market but not so much on larger cases?

Whatever the reason, Howard Lickens, chief executive of the Clear Group, said that the quarter-on-quarter premium numbers were pushing brokers into making more and more acquisitions: "Overall premiums have remained flat and, as a result, brokers' underlying business is static at best. For brokers to achieve growth they need to increase sales or acquire, which is why so many more brokers take the sales process more seriously or talk about acquiring."

The index is, according to Lickens, broadly reflective of what brokers are seeing in the current marketplace, although he clarified: "Of course there are pockets where rates are hardening and/or capacity is disappearing such as residential property and some professional indemnity." Again, it is clearly not the case that broker books are heading northwards on the waves of any kind of market surge.

Meanwhile, Neil Campling, chief executive of ICB Group, said he was mildly surprised by the results as in his experience the sector is experiencing slight growth in premiums. However, he added that the increases were small (less than 1%) and what he is seeing may not replicate exactly Acturis' overview of the market.

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.

In terms of growth Campling picked out packages, which grew 1.1% comparing Q2 last year to this year, and revealed that ICB was actually seeing a "bit more" than that and advised that there was definitely some rate hardening in the business line.

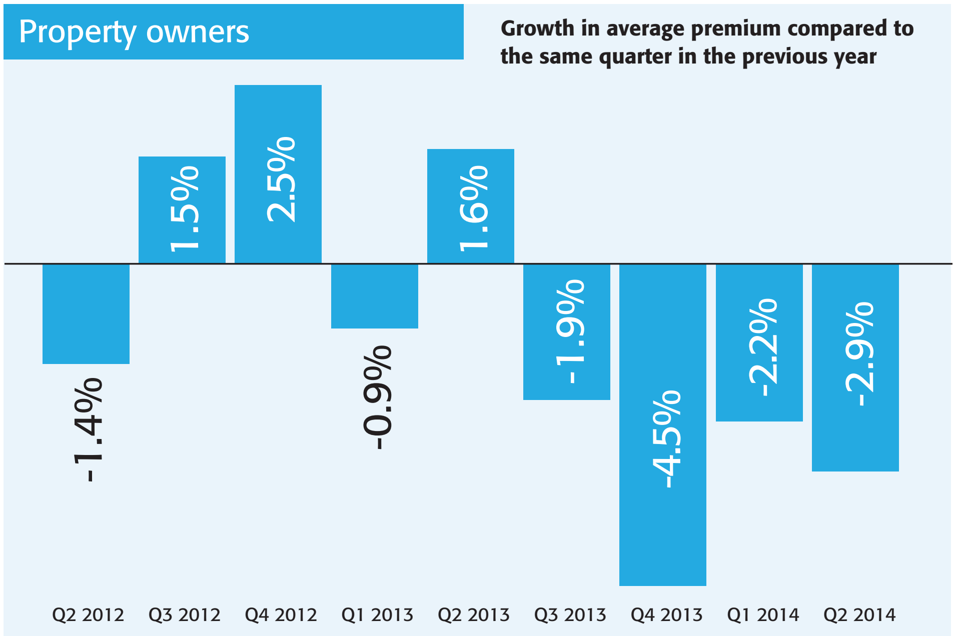
Interpreting the tradesman figures was problematic. On the one hand the annual rise was impressive with a 3.7% surge. It seems like a wild rise – at least compared to the others – but set against Q1 2014 premiums actually plummeted from 109.1 to 105.4 (using a baseline of 100 in Q1 2010). Lickens highlighted a number of issues with this particular sector. "It's consistently under-priced and given the extra responsibilities on brokers this is moving to a non-advised area dominated by aggregators," he commented. "Expect rate weakness and let's hope policyholders buy wisely."

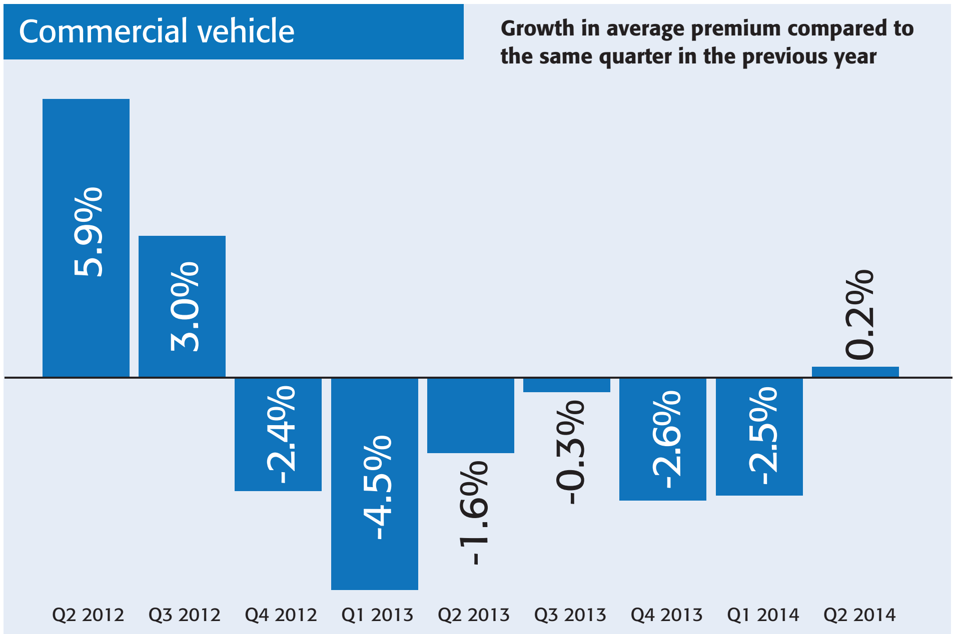
Campling agreed that the sector is under-priced and that there are issues with the use of aggregators. "It's a very competitive business if you look back over the last two or three years and it's a product that can be bought on the internet relatively simply.

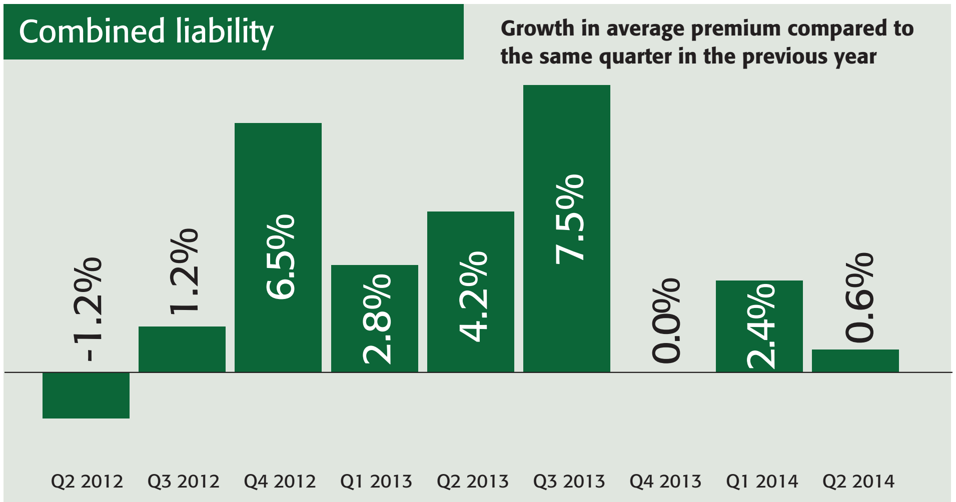
"The SME business is getting less resistance to rate hardening than we would see with bigger business," he added.

The three measures that went backwards when comparing like-for-like quarters in 2013 and 2014 were property owners, (2.9%), fleet (0.8%) and commercial combined (0.4%). It's no secret that commercial combined is the largest component of a typical broker's business book – Acturis weights it at 35% – and its unremarkable start to 2014 has contributed to the overall fall in the commercial broker index.

Campling agreed that, in general, commercial combined does make up a large element of most brokers' business but said he was unconcerned about the premium falls as they "weren't that significant" and would not have a massive impact on earnings. ▹







On fleet, Crane commented that the numbers weren't necessarily mirroring LV's experience. "We've seen fleet premiums go up quite steadily throughout this year," he said.

But the biggest faller in the second quarter was property owners. The index hit an all-time high in the second quarter of 2010 when it reached 103.8 against the baseline. However, it has struggled since then and currently stands at 98.8, a fall over the four years. In the last 12 months alone it has dropped by 2.9%. Acturis said in its analysis of the results that this points to a competitive problem in this area of the business.

Which just leaves commercial vehicle. On the one hand it is traditionally the best performer, it has appreciated from 100 in Q1 2010 to 124.5 in Q2 2014 – no other line gets even close to this. And again on first glance the Q1 to Q2 figures are impressive. But the real truth is that year on year it has barely moved – up by 0.2%. According to Lickens the sector has been a "basket-case for years" which is as good a way as any to sum up the contradictory movements.

As mentioned at the start of the article, most lines were up in the second quarter compared to the first. But to be fair this is an annual "blip" that the market sees pretty much every year. So what then could the future hold? Is substantial general rate hardening likely when so many insurers are chasing growth again?

LV's Crane was certain that there remains "a need for rates to push up a bit more" although he accepted that "most major players are still trying to hold on to their share of business and still trying to grow".

He did predict: "People will take tough decisions where it is needed and if you can't see the rate coming through then you will see volume changed accordingly."

And what of the other factor, the size of risks needing to be insured? With confidence coming back in to the economy exposure levels could increase which would impact the numbers.

Campling pointed out that the growing economy would only boost the sector for Q3 and looking further forward on to Q2 next year and he predicted that there would be more turnover and more activity generally.

He added: "The growth will have an effect on premiums but whether that affects the rate will be another question. I think we are looking at a 2-2.5% increase in premiums by 2015 if you look at the mix of client activity and rate."

It remains the case then that there is little faith in a booming market likely to emerge from around the corner. However in summary, Lickens reasoned that the static premiums were not such a huge problem for the good brokers in the sector. "For some years brokers have had to work with static revenues so we have to work on efficiency and improving our businesses. For those who get that right the future is bright," he concluded. ■