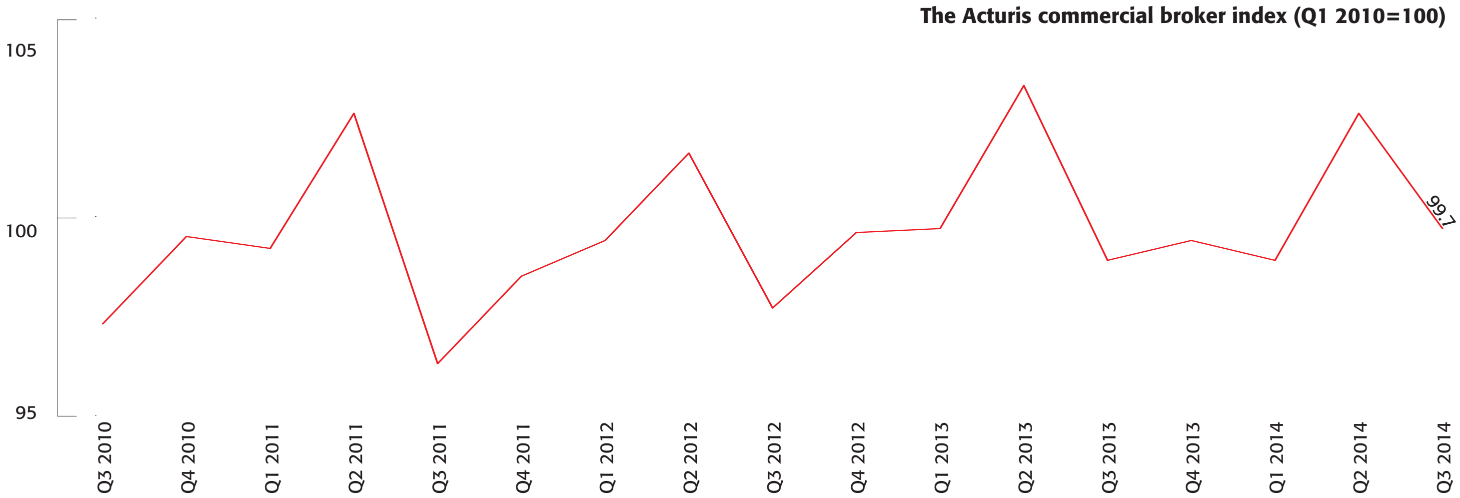
THE STATS – THE ACTURIS PREMIUM INDEX



● The Acturis indices have delivered a slightly positive report on the movement in average premiums in the third quarter of this year.

For instance the software company's commercial broker index, which is weighted across key lines to represent a typical broker's commercial book of business (see 'Explaining the figures on page 65), went up by 0.8% this quarter. The figure, which is a like-for-like comparison looking at the same quarter of the previous year, is a particularly positive sign given the numbers have been negative for the previous three quarters.

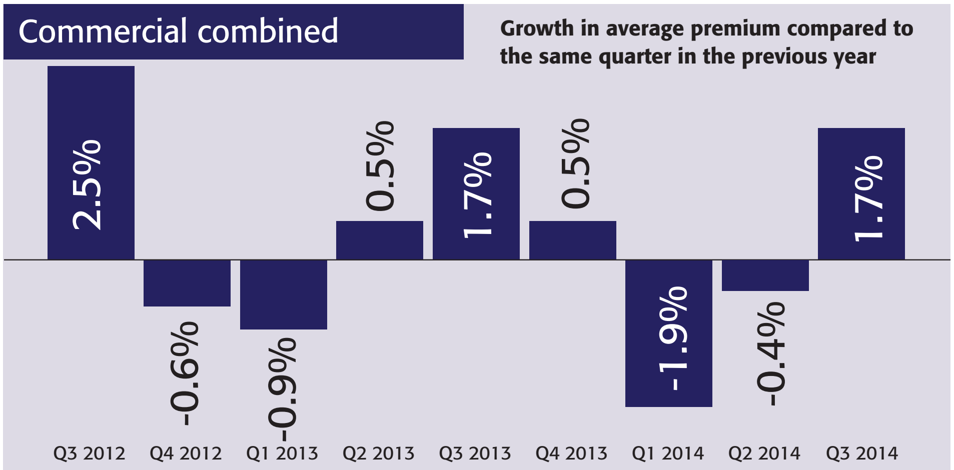
Acturis pointed out the rise was "a result of the growth in the commercial combined and combined liability indices" despite the negative performance of various other lines.

But the good news does need to be tempered. As the graph above makes clear, compared to the base line, for which Acturis is using the first quarter of 2010, the average premium has not increased; it has in fact decreased to 99.7% of the original.

There are two elements that form premium – the size of the risk and the size of the rate – meaning that the changes in premium can be driven by movements in either measure. The numbers reported by Acturis are a combination of both parts. Measuring movements on a yearly basis makes it possible to set comparable risks against each other.

And so on to those figures section by section. The only lines with positive movements were those already noted by Acturis and tradesman business. The figures for commercial vehicle, fleet, packages and property owners have all dropped, indicating that this quarter has not been as positive as it may appear at first sight.

But let's start with the positives. The average premium for commercial combined has gone up by 1.7% compared to the third quarter of 2013, after seeing negative numbers in the first two quarters of the year. Commenting on the figures, David Williams, managing director of underwriting at Axa, said: "I am pleased to see the commercial combined premium increase finally come through. We have seen increases in that department in the past few quarters as well, but it has not showed in the Acturis statistics. It's always good to see that it's going up."



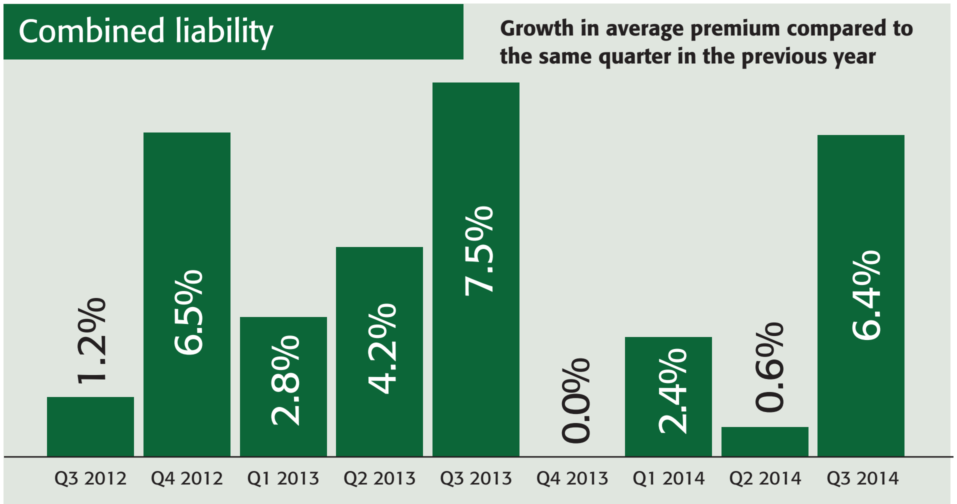
Another riser was combined liability. The average premium here has seen positive movements for the past two years. It continued to go up 6.4% in the third quarter – the biggest surge recorded by the research this quarter – and the movement was something Dave Greaves, head of SME at QBE was pleased to see.

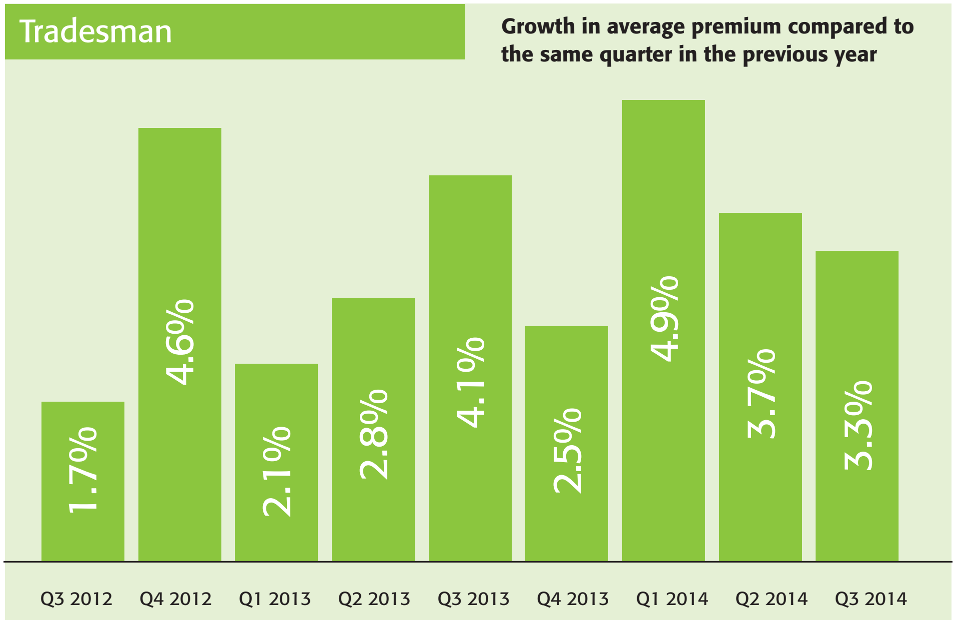
"Liability is generally on an increase, because insurers are better at risk pricing now," he said. "Heavier, more challenging risks are priced more appropriately than before. And they really need to increase."

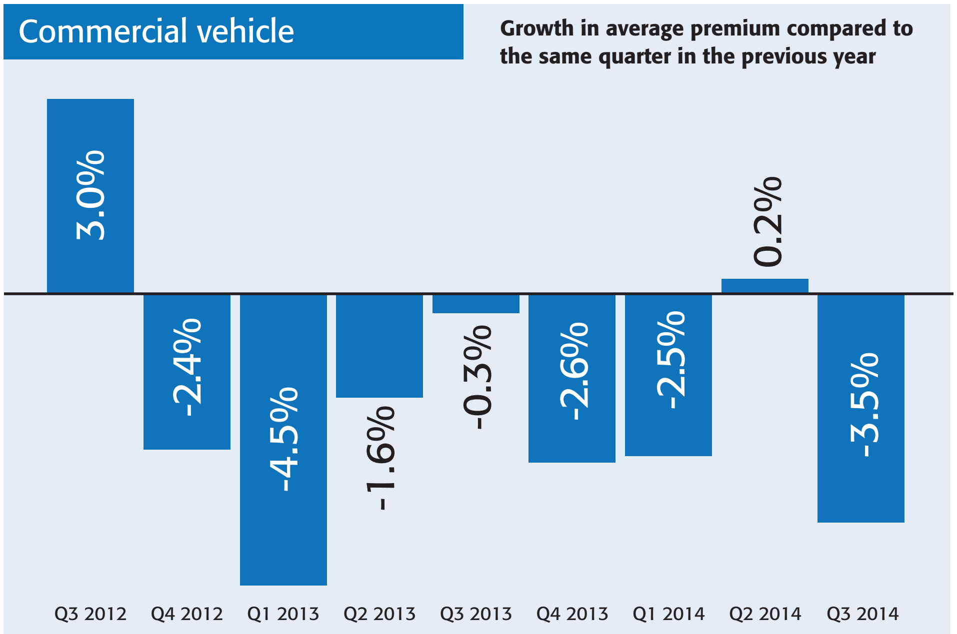
Which, among those moving in the right direction, just leaves tradesman. The figures continued the previously seen positive trend and were up 3.3% in the third quarter. It is a line that not only saw a quarterly rise but also benefits from having seen progress since 2010 coming in at 107.7% compared to the baseline. Commenting on tradesman, Brokerbility's managing director, Ian Stutz said the figures were in keeping with his recent experience. While stressing that there were many different elements that could have resulted in the rise he suggested it was historically an area that had been "overly competitive" among insurers and that "it may have been underweight as a class of insurance and there are a lot of insurers trying to get their books sorted out".

Now though it is time to turn negative. Let's start with commercial vehicle which has been in a downward spiral since the fourth quarter of 2012, and the latest quarter was no different. The figures dropped 3.5% compared to the same quarter last year, a fall that Williams has seen in Axa's numbers for the second part of the year as well.

Jon Newall, principal at Lockyer Insurance, agreed with the negative numbers, highlighting that there was a similarity with







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.

personal lines where "it's evident that the car insurance competition is increasing".

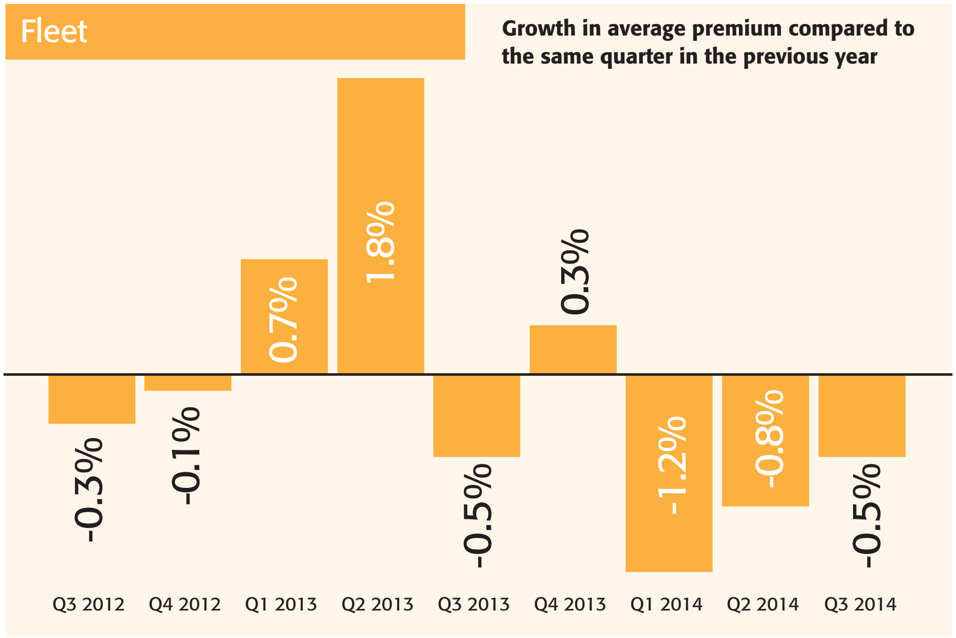
The general opinion in the market seemed to be that toughening competition in the motor insurance division is the reason for the falling figures and that it is only going to get worse in the near future. There were also concerns about vehicle insurance rate reductions coming through now as the market appeared to have avoided over-reacting to the potential impact of Laspo and other legal reforms. "Most insurers put rate reduction into personal lines, but held off on commercial lines," Williams said. "Every time we see profit there is a feeding frenzy which leads to rates coming down."

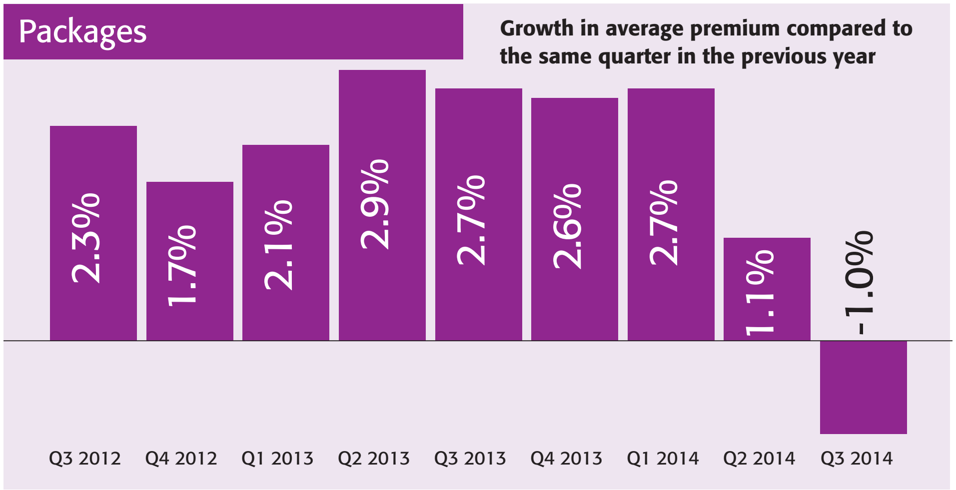
However, compared to the base line, the commercial vehicle line is at 120.4%, which is a higher level than any of the other lines.

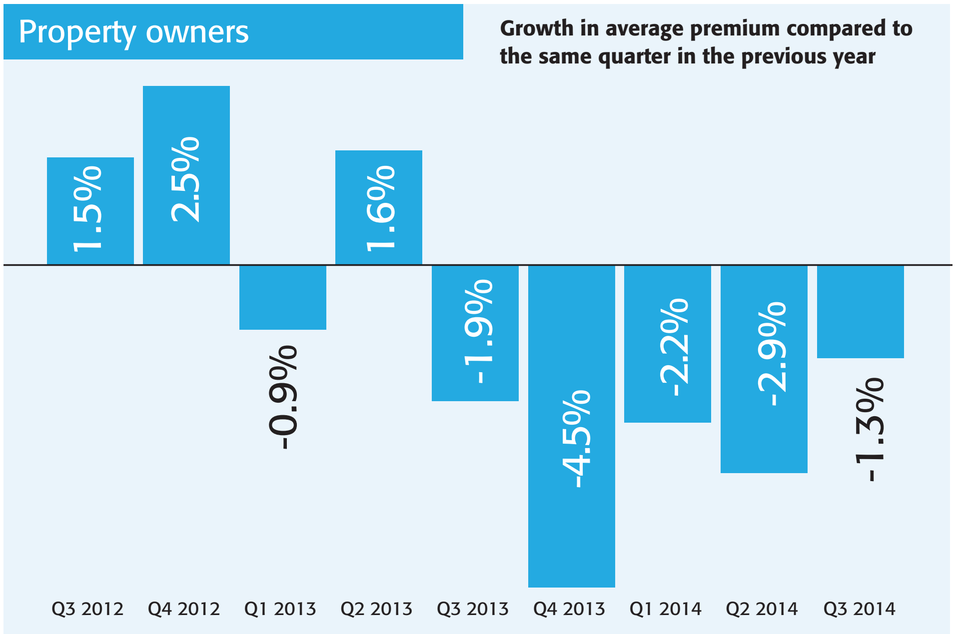
The figures for fleet have dipped 0.5%, after falling in the two previous quarters. One interpretation was that the competition was increasing in this line as well. The most controversial figure though from the third quarter findings was the one percent drop in the packages line, after an almost three-year long streak of increases.

Stutz said that the fall in the packages line was the most surprising to him and that he had expected a more positive situation. Williams was also skeptical and added: "I would have expected it to be a percent up, like it has been in the last quarters. If it is down, and this is the one I would probably question, it's probably because it's getting more competitive and more insurers are changing their rates."

Other reasons suggested for the fall from experts across the market were the impact from technology and an increasing use of e-trading solutions. Also dipping in the third quarter was the property owners' line, which was down 1.3% compared to the same period in the previous year, something that was surprising to some working in the market. Having decreased to only 90.7% of the original baseline average premium, it is ▹







the line with by far the worst performance compared to the first measure in 2010.

Greaves highlighted that he had seen a different trend in the market. "The property stock, in my experience, is up by 5% in the regions, but the pricing is not coming through to reflect that," he said.

Also below 100% for the latest three-month measurement was fleet, coming in at 98.5% in a characteristic third quarter dip. It also fell in the third quarters of 2013 and of 2012.

Most of the statistics for the third quarter were in line with what people in the market have seen during the three-month period. Agreeing with the numbers as a whole, Newall highlighted that "the market is hardening but not equally across the lines and the numbers reflect that", adding that he thinks that the figures for the next quarter will most likely dip further.

He has also noticed that "there is more money in the Lloyd's market now, because other insurers don't want the risks and don't have the same risk appetite as before".

Greaves said he has sensed less business coming into the market lately, because people are "trying to hold on to what they have". Interpreting the changes in the figures, he added: "It's a mix between rates and risk, there are many drivers behind the movements. For example in property, the residential lines see more rate competition than commercial property."

"But there is not a huge amount of movement in general," he concluded. "Insurers are better at pricing and differentiating between good and not so good risks."

Regarding the future, the general opinion was then that the market would remain competitive with pockets of hardening but that there was a distinct possibility that overall more figures would continue to fall rather than rise.

But, to cycle back to the beginning and the fact that brokers' books are not evenly split across all the lines there is an opportunity to end in upbeat mood. It was not all negativity in the third quarter. Indeed if anything Brokerbility members have seen even more progress than Acturis' basket of figures suggest. The commercial broker index rose by 0.8% in Q3 but this came after it delivered a 0.8% decrease in the first quarter of 2014 and a 0.7% fall in the second quarter. It appears though there are still opportunities out there. "It might well be tough, but I have seen a 3% organisational growth average," said Stutz speaking of his members. "This has been a very positive year for our brokers and there are stories of very good growth."

Adding to the more positive note, Greaves concluded that he could see that "exposures are increasing and that the economy is turning around after the recession". It is something every broker will want to continue. ■