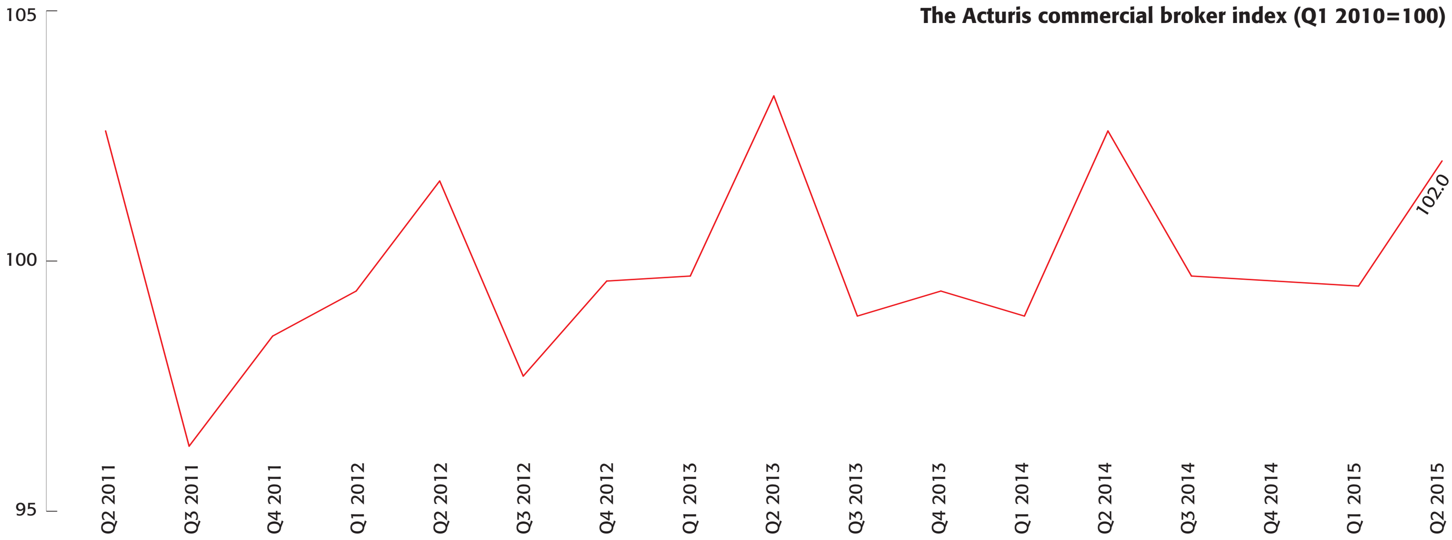
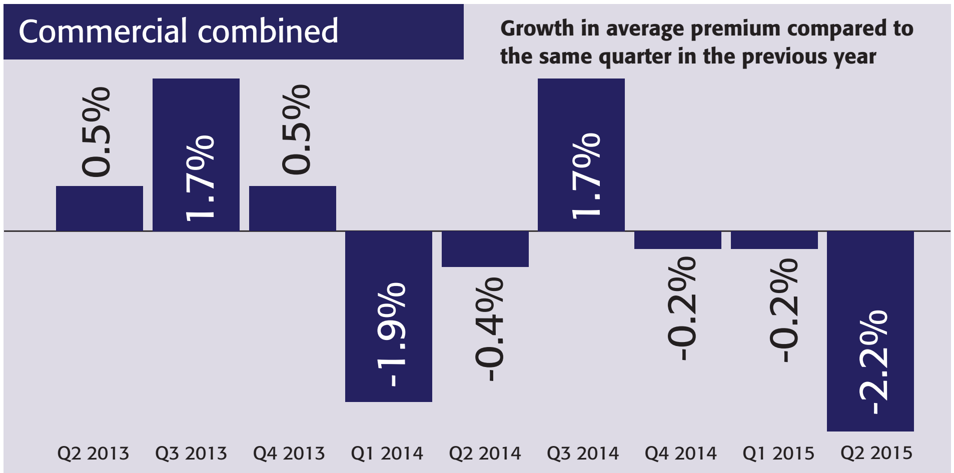
THE STATS – THE ACTURIS PREMIUM INDEX





● The Acturis indices for the second quarter of 2015 have revealed a calm period that saw most lines staying relatively flat. However there was still plenty to debate for our experts with four indices moving downwards and three of them moving slightly upwards.

The commercial broker index (see graph above) measures movements in average premiums across key lines in a typical broker's commercial book of business. For Q2 it was up over Q1, but more importantly it was down by 0.6% compared to the same quarter of 2014. The drop was in contrast to the result for the first quarter of the year when the index went up 0.6% compared to the start of 2014. According to Acturis, the Q2 fall – the first in 12 months – was driven mainly by a 2.2% drop in the highest weighted class of business in the index: commercial combined.

Packages, commercial vehicle and property owners have also decreased, while an upswing in combined liability helped offset those falls somewhat, along with rises in fleet and tradesman.

Thus it's not all grey skies and depressing background music, and compared to the baseline, which is the first quarter of 2010, the commercial broking basket actually comes in at 102.0, after being below 100 for the three preceding quarters.

The data from the software company looks at both the size of the risk and the size of the rate, meaning that the changes in premiums can be affected by movements in either of these factors. By setting identical annual quarters against each other it also seeks to compare like-for-like risks rather than the movement between quarters where different covers may be being bought.

Diving head-first into the individual lines, let's start with the negatives and that 2.2% fall in commercial combined in particular. This line has only had one positive year-on-year movement since the start of 2014, when it went up 1.7% in the third quarter. It comes in at exactly 100.0 compared with the baseline, indicating that despite twists and turns on the way, overall it has stayed absolutely flat since the first quarter of 2010.

Commenting on the figures, Jon Newall, principal at Lockyer Insurance, said: "Commercial combined is very competitive which is driving premiums down."

Simon Mabb, managing director of Leeds-based Romero Insurance Brokers, added: "Managing general agents have dragged the pricing down in the mid-market area, and that is probably why commercial combined is down. That is where the real battleground is."

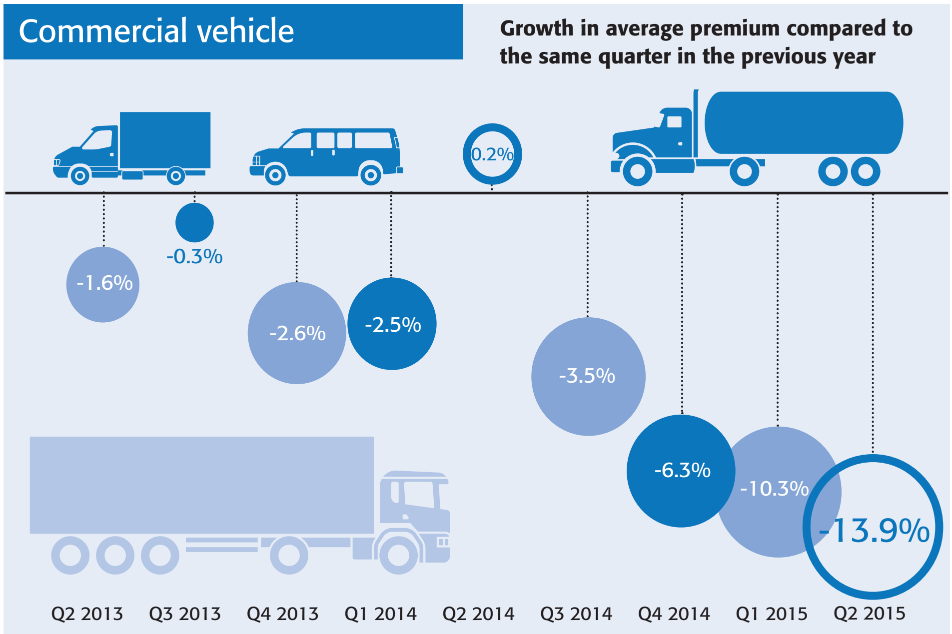
Meanwhile, commercial vehicle saw the largest drop of the quarter, which came as a bit of a surprise to experts in the market. After having been on a continuous downward spiral for the preceding three quarters the latest figure revealed a stunning 13.9% year-on-year fall. It is particularly surprising given that at this time in 2014 we were writing about it increasing by 0.2%.

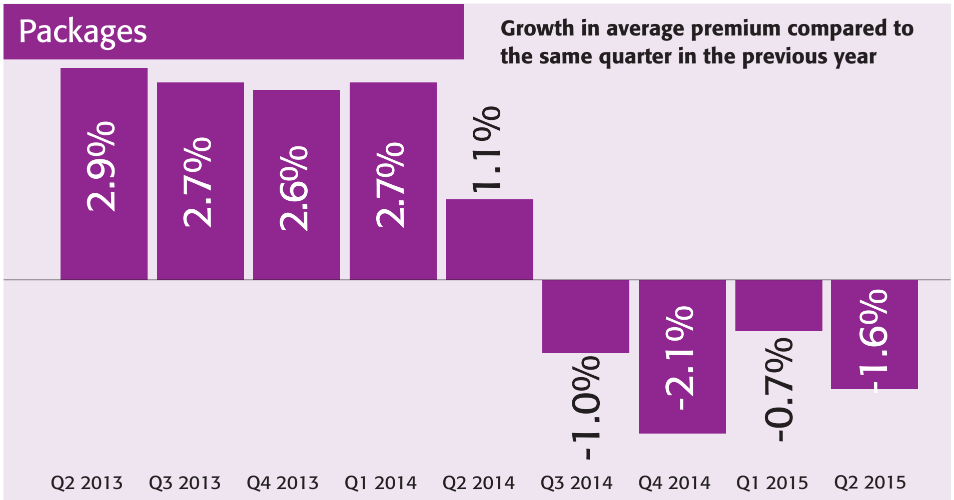
Mabb noted: "That commercial vehicle is down so much for two quarters running surprises me. We have seen soft rates, but those are some pretty chunky numbers. Maybe ▹

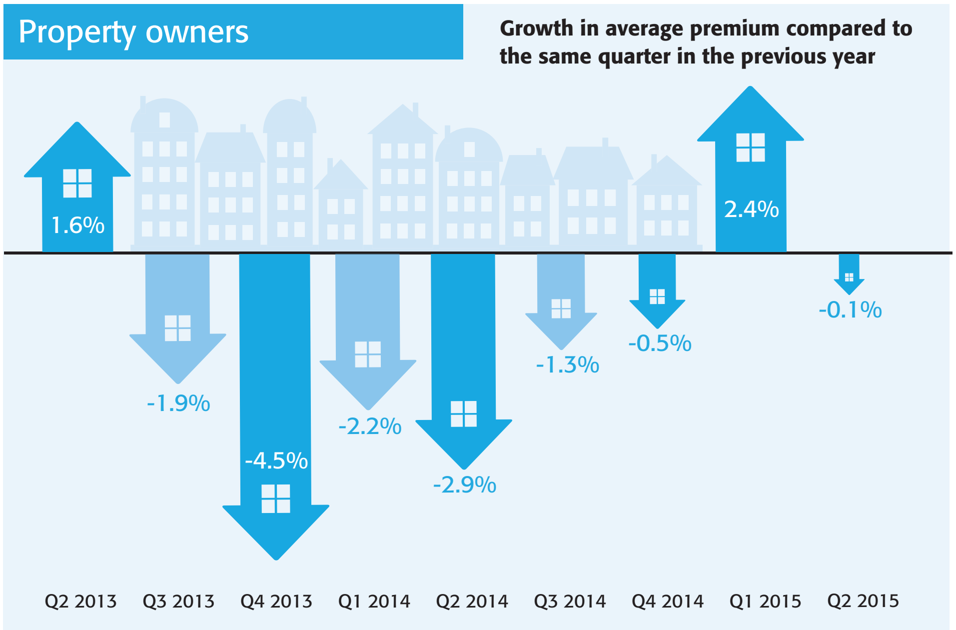
Explaining the figures

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.







they're down because we had a benign winter and the claims ratio is not coming through."

According to Jon White, commercial SME underwriting manager at QBE, commercial vehicle was one of the lines that stood out to him the most. "It's not a product we e-trade, but they are usually valued products with a lot of insurers on the panel," he said. "It's a price sensitive line with lots of competition."

Packages fell this quarter by 1.6% compared to the same period last year. It has however seen rises in previous editions of the indices and is doing a little bit better than in 2010. It comes in at 104.3 compared with the baseline.

Mabb was surprised by the recent decline and said: "I would have thought packages had moved forward. People are trying to get rates up and they usually do it in small business."

The final faller for this section is property owners which saw a slight 0.1% decrease and is the only line that came in below the baseline, at 98.7. The drop marks a return to decline as property owners saw a small upwards movement in the preceding quarter after continuously falling for two years.

Melanie Hampton, managing director at Alexander Miller Insurance Brokers, commented: "There has been a downturn in the London property market. People can't sell their house for as much as they bought them and the insurers pay for that when it's really just a market change."

Newall on the other hand had expected to see something else: "Property is flat, but I would have expected it to grow. There is a lot of property being built, so the drop is strange to me."

Now time for the positives. Combined liability went up 3.3% and has been enjoying a positive trend since the third quarter of 2012. It was the line that performed the best this quarter and the effect helped move it to 111.3 compared to the baseline.

According to Hampton the fact that combined liability was going up came as no surprise. "Because of government legislation, insurers aren't prepared to fight against liability claims so they pay out," she said. "We are where we are and there's not much to do about it."

Mabb added: "Liability is moving forward and that's about right, insurers are trying to move rates forward in liability." But he warned that it was "still a soft market".

It may be a small rise, but fleet was up for the third consecutive quarter, this time by 0.2%. It has largely remained flat since the start of the indices in 2010 and comes in at 102.4 compared to the baseline.

Mabb explained that he was surprised that commercial vehicle and fleet were so far apart from each other. He added: "Minus 13.9% in commercial vehicle against plus 0.2% in fleet seems strange. We haven't necessarily seen fleet move forward, there's probably been a slight negative movement. Not as much as 14%, but around minus 1% or something like that."

And finally, tradesman has been on its way up ever since the start of 2012 and this quarter was no different. It saw an annual rise by quarter of 2.9% and has managed to climb above the baseline to 108.4.

According to White, the increase in the tradesman line stood out for him, because in his experience the competition among insurers had increased.

Most experts in the industry agreed that, while there was some movement up and down in various sectors this quarter, overall the commercial market had mostly remained flat.

White commented: "I think some of this is down to pressure on rates driven by general market conditions. In the lines where there are fewer insurers on the panels there is less volatility. More insurers on the panels means additional competition and reduced premiums."

Meanwhile Newall disagreed with the figures presented by Acturis, adding that he had seen plenty of growth in the market this year.

"That the overall index is dropping surprises me because most of the brokers I know are growing. Maybe some of their bigger clients are feeling pain," he said.

Newall added: "We've seen a mixture of hardening and softening in the market. For low-risk policies it's softening but for the higher risks rates are being pushed up and we're seeing hardening."

Commenting on the general state of the market, Hampton, whose brokerage specialises in high net worth, said: "Non-standard risks are harder to place now than they were before. People want them to be straightforward and easy and placed at a low cost. Unusual and unique things are more difficult to place."

Looking at the rest of this year, a majority of the experts *Insurance Age* spoke to did not expect any big positive changes to come in the coming months.

White explained that while he saw some of QBE's products performing better than others, he did not foresee any significant movements in 2015. He added: "I see more competition and more insurers on the panels."

Pointing to regulation and the increase of the Insurance Premium Tax to 9.5% as potential issues going forward, Hampton added: "The cycle used to be every four to five years, it went up and it went down. But now it's been down for 10 years and I can't see a change coming anytime soon."

However, in the spirit of ending on a positive note, Newall saw a bright future for the broking industry.

He concluded: "For brokers who are adapting to technology the future is looking very good. It's those who still have their files on paper who risk being left behind. We're investing in technology and reaping the rewards." ■