

Uncertainty in the market delays inevitable rise in premiums

The normal cyclical nature of the insurance market seems to have been disrupted during the recent global financial crisis but the overall result has provided some rare good news for policy-holders, writes **Richard Salt** of Derby-based insurance brokers and risk managers Bell & Co.

Just over a year ago I predicted that Derbyshire businesses were likely to start facing more significant rises in their premiums, but the unprecedented events in the overall financial world coupled with specific changes in the general insurance sector itself over the last 12 months have slowed this down.

We have enjoyed historically low prices over a long period of time. By 2008 it appeared that the situation was sadly again becoming unsustainable and a correction in this cyclical market long overdue.

New legislation, including the introduction of the Corporate Manslaughter Act, plans to recoup NHS costs following an accident, a continued growing claims culture in the UK, more insurance fraud and weather related claims have all put further pressure on insurers to increase premiums in their chosen sectors.

And so the stage was set for an apparently inevitable significant rise in the cost of insurance for both businesses and individuals. That was until the credit crunch turned into a global economic crisis. This was reflected amazingly with the near collapse of AIG – one of the world's largest insurance firms – at the height of the banking crisis.

The fact that AIG was eventually saved and the economy's slide seems to have steadied has proved very good news for businesses from an insurance perspective in that their still remains

strong capacity in the insurance market which has held back the really significant rises feared in many circumstances. This capacity has meant competition that has continued to depress premiums, a situation that has been compounded by the wider recession.

Many companies have seen turnover fall and a reduction in the number of people they employ. As most insurance policies are calculated using these two factors, premiums have also fallen.

In such a confused climate, insurers are being reluctant to drive away customers by significantly increasing the cost of cover.

One leading company that tried – in the expectation that the rest of the market would follow – has been forced into a quite a hasty retreat.

However, it is not all 'good' news for policy-holders. Perceived reductions in premiums may hide the fact that they are proportionately paying more for cover. As an example, their turnover and staffing levels may have reduced by 10 per cent but their relevant liability premiums may not have come down by the same amount and this is something to be wary of and check.

What's more, a number of insurance companies have been offering introductory pricing for some kinds of risk whilst maintaining rates for existing customers at their current levels. The converse is where some risks are turning into renewal only risks that would 'not be acceptable for new business' – very difficult to explain to a client and an instance where the brokers role needs to be more demanding of their insurer partners.

In all cases, it is important that businesses insist their broker presents the full facts around finding the 'best all round deal' regarding the combination of price, cover, and insurer.

The current economic situation will not last forever and many of the underlying pressures on the industry certainly remain. For once, uncertainty has worked in favour of policy-holders, but as and when the insurance market regains confidence so too will the desire to increase premiums. In short, the expectations of



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a correction in the market have not disappeared, but merely been postponed.

We expect that the result of a test case under the new Corporate Manslaughter and Corporate Homicide Act will have an impact on the Directors and Officers Insurance market and this has already seen an increase in demand for this type of cover.

The ongoing recession is likely to result in more job losses, with many companies facing increasing claims under employment legislation, a sector where premiums are rising and cover is reducing.

Therefore, it is important that businesses act now to ensure that their broker is working hard to secure the best deals, before the insurance market becomes more united in regaining the confidence to further strengthen balance sheets through higher premiums.

Businesses can also use this period of uncertainty in the market to put in place measures that reduce the risk of claims against them, which will help to reduce their premiums when the inevitable market correction finally arrives.

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