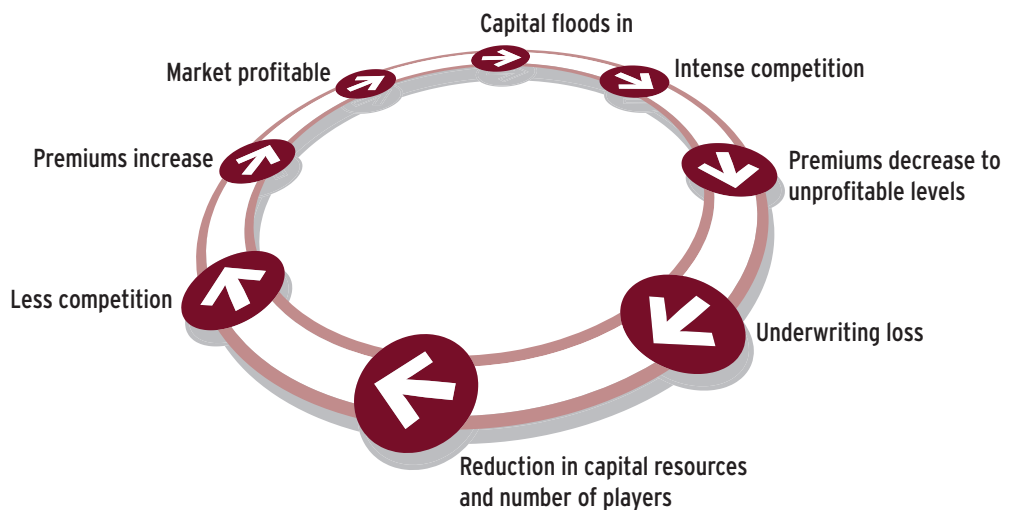


COVERNOTES

WHY IS MY INSURANCE PREMIUM INCREASING?



For decades, the insurance world has operated in a cycle of high and low pricing. Premiums change according to where in the cycle the market is positioned, increasing in a hard market and reducing in soft market conditions.



The UK insurance industry is currently operating in a soft market, the view of many insurers being that premiums have now reached unsustainable levels. Since 2003, rates for most types of insurance have reduced because of intense competition in the market. However, the cost and frequency of claims have continued to rise for a number of reasons, some of which are outlined overleaf, which has led a number of insurers to review their rates.

... The cost and frequency of claims
... have continued to rise...

CLIMATE CHANGE

Climate change is thought to be the most likely cause of the increase in the frequency and severity of the storms and floods we have seen in recent years and has had a serious impact on the insurance market. The 2007 summer floods resulted in around 165,000 claims and cost insurers an estimated £3 billion*. Many insurers now believe that such catastrophic weather events are no longer freak occurrences and as such, their rates should make allowance for them being more commonplace. Add to this the fact that demand for property continues to drive development on flood plains.



MORE FREQUENT CLAIMS

The frequency of claims is on the increase for a number of reasons including:

- More personal injury claims, fuelled by the growth in the compensation culture, which is often attributed to no win, no fee lawyers.
- The use of plastic pipes in plumbing has led to an increased incidence of burst pipe losses.
- Arson losses have seen an increase of 17% in the last 10 years**.

CLAIMS INFLATION

Whilst premiums haven't increased since 1993, the costs that insurers must absorb have, e.g.

- The rising cost of raw materials e.g. the increased cost of metal as a result of increasing demand from China and India.
- New technology is increasingly sophisticated and costly to replace. More businesses have specialist machinery, which can often mean long lead times when replacements are needed.
- The rising inflation for insurance critical

materials e.g. there has been a surge in the costs of reinstatement in the wake of the 2007 floods due to the shortage of skilled labour. Further, it is expected that the 2012 Olympic build up will add two percentage points on building labour and material demand.

- Dependency on overseas suppliers for both raw materials and goods, extending the lead time for replacements and costs as Asia and the Far East soak up demand.
- The compensation culture is increasing both legal costs as well as the average costs of liability claims.
- Rising car repair bills due to advancements in vehicle technology.
- Increasing average claims costs. According to Norwich Union, the average claim in manufacturing now exceeds £10,000 and the frequency and cost of motor losses in excess of £100,000 continues to increase.

THE IMPACT OF LEGISLATION

Legislation has an increasing impact on the cost of insurance claims e.g.

- Local authority legislation, building design and planning permission requirements such as improved energy efficiency, affect reinstatement times and costs.
- The National Health Service Injury Costs Recovery Scheme which allows the health service to claim back money for treating patients who have been awarded personal injury compensation.
- Noise regulations - reduced levels of exposure permitted, potentially increasing the number of claims.

INSURANCE FRAUD

According to the Association of British Insurers, general insurance claims fraud is costing insurers £1.6 billion a year. This adds 5% to the premiums paid by honest policyholders.

You might now be finding the results of insurers' rate reviews reflected in your insurance premiums. Whilst rate increases don't seem like good news, it is hoped that moderate increases now will help to avoid much larger increases later.

Contact us if you would like to discuss this issue further.

* Source: The Association of British Insurers

** Source: Norwich Union

Climate change has had a serious impact on the market...