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Premium Increases
Why the UK Insurance market is hardening

Prior to the COVID-19 pandemic, a number of factors were impacting the market conditions facing the industry. Add to that the uncertainty the pandemic has brought, and it's no surprise that we're heading into an insurance market unlike any seen before, with conditions that many of us will not have ever experienced. So why is the UK insurance market hardening so much?

"**Solvency II has taken much of the spare capital out of the marketplace** – launched in 2016, Solvency II which applies across the whole of the EU, has meant that insurers spare capital requirements have more than doubled. This has caused a number of insurers to leave the market whilst others have significantly reduced their capacity. Solvency II has also created a significant barrier to entry meaning that lost capacity in most cases is not being replaced".

"**The negative Ogden table rates are here to stay** - When Liz Truss the then Minister of Justice changed the Ogden table rate from 2.5% to minus 0.75% it meant that insurers had to pay out far more on larger personal injury claims. Insurers were hopeful the rate would return into positive territory in 2019, but they were disappointed as the government have pretty much locked into a rate of minus 0.25% in England and Wales and minus 0.75% for Scotland, further impacting settlements and rates now have to be set accordingly".

"**Property rates in the UK were already far too low coming into 2020** – For most insurers property had become a class of business which had turned into a loss-making enterprise. The soft rating had meant the maths was no longer adding up. Even if we ignored the terrible recent events, property rates needed to go up considerably in 2020 just to balance the books".

"**Terrible start to 2020 with storms Dennis and Ciara** – With property accounts already losing money, the last thing UK insurers needed were floods that could end up costing well over £400m. Climate change is causing insurers to struggle with correctly predicting floods, and they need to build up a pot of money to take care of the next set of bad floods which will inevitably be on their way".

"**COVID-19 will be the most expensive event ever to hit the insurance world** – not my words but John Neal, CEO of Lloyd's of London. It is estimated that the combination of insurance claims and investment losses will cost the worldwide industry in excess of £200 billion, making it the most expensive insurance event ever. Clearly the FCA test cases in July will have a significant bearing on how much the UK insurance industry will have to pay out in BI losses relating to COVID-19, but with these losses coming on top of storms Dennis and Ciara then to quote John Neal again 'The chances of the market making anything other than a notable loss are zero".

"**Reinsurance rate will rise significantly, and capacity will reduce** – Reinsurance is a key component of an insurers pricing model and rates will rise significantly come the renewal time for treaties. Insurers will have no option other than to reflect these increases in their rates".

"**Interest rates are at an all-time low** – when interest rates are high insurers can get away with a certain amount of underwriting losses as their investment income will bail them out. Not so at the moment, as the current interest rates are the lowest in the Bank of England near 300-year history, insurers will therefore have to write for profit and put up rates".

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