

Factors influencing Insurance Premiums



Factors influencing insurance premiums



At Zurich Municipal we are dedicated to serving both the Public and the Voluntary Sectors. We are committed to being here for you when it matters so ensuring the sustainability of our business is vital to helping the sustainability of yours.

One aspect of this is helping you to understand the factors that affect insurance premiums and other related costs. Our aspiration is to ensure that our pricing is transparent and that we clearly explain the business rationale for any movements.

Insurance premiums will of course increase and decrease depending upon the capacity available in the insurance market, however there are also many additional influential and external factors. This is why maintaining a clear and consistent pricing methodology is so important.

As insurance and risk experts we're keen to share this information with you and I hope that you find this information useful. As always I welcome any feedback you may have.

Best Wishes

Anne Torry
Managing Director, Zurich Municipal





Our underwriting philosophy underpins the desire to provide stable capacity and sustainable pricing for our customers.

By explaining the factors that influence insurance premiums our aim is to help you understand the short term rating changes that occur, thereby avoiding greater volatility in the future.

The principle of the common pool in which the contributions of the many pay for the losses of the few sets the basis for premium calculations. Contributions are required to cover:

- Claims costs
 - Anticipated attritional claims consisting of smaller more frequent losses
 - An allowance for large and catastrophic claims, that will happen to some customers
- A proportion for reserves, for claims which we are not yet aware of or even expect under a policy, this is particularly relevant for liability policies
- Reinsurance premiums, where purchased
- Costs of running our business

Your insurance premiums are primarily based on the specific risks you face and your individual claims experience, however factors such as claims inflation, investment returns and the expenses in providing the insurance service itself will have an impact.

This document aims to explain the various factors influencing pricing for particular types of cover, as well as providing you with some risk management guidance. By working together we can manage the impacts.

Anne Griffiths
Head of Underwriting, Zurich Municipal

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Key factors influencing your insurance premiums:

Regulation and legislative changes



New or existing legislation

This is an on-going and constant pressure on premiums. Legislation places additional responsibilities on companies, public bodies or individuals around products and services, health and safety requirements and statutory duties. It can also fundamentally change processes and procedures. Relevant examples of regulatory and legislative changes would include the Localism Act 2011, the Public Health transition and Solvency II.

Ministry of Justice reforms

A host of changes also came into effect in 2013 as part of the Ministry of Justice claims reforms and the review of civil litigation costs by Lord Justice Jackson, which are set out in the Legal Aid Sentencing and Punishment of Offenders Act 2012 (LASPO) and in secondary legislation, including amendments to the Civil Procedure Rules. The reforms present a potential opportunity to address some of the increasing legal costs faced by insurers, however general damages will also increase by 10% in consequence.

Health and Safety reforms

You may also be aware of the Health & Safety reform agenda, which makes changes to guidance and may result in a potential deterioration in standards. We consider the impact of all legislation within our pricing.

What you can do to mitigate the effects

- Recognise new responsibilities arising from new legislation and ensure that you are taking action to fulfil these new requirements.
- Seek to optimise the quality of your inspections and risk assessment records as these could be used as evidence of compliance to regulations.
- With respect to the Health and Safety, ensure effective procedures are implemented, including appropriate training and high quality equipment; even in times of austerity, legislation indicates that health and safety simply cannot be compromised.
- Understand the new requirements the Ministry of Justice reforms bring and ensure you are able to respond to them – if in doubt, please contact us and we can support you in gaining a further understanding of this area.



Claims trends



Climate change

Volatility in weather patterns is continuing and losses related to severe weather represent a disproportionate percentage of claims costs. This trend is a trend for careful consideration in your planning, ensuring you have major incident response plans ready to deploy from an insurance premium perspective, the increase in extreme weather events is incorporated in our pricing approach.

Changing behaviours

The UK's legal framework, a proliferation of claims management companies and a perception of 'easy' compensation gains have led to an overall increase in claims frequency. The industry has seen an 18% rise in reported claims between 2007 and 2011 (Source AM Best & Co Rate Increase Report Oct 2012).

Claims inflation

The cost of settling claims has been steadily increasing for many years across all lines of business due to rising costs of property repairs, labour, materials at a rate greater than inflation. In addition the rising cost of care, increasing legal costs and the growing use of Periodic Payment Orders (PPOs) are also influencing the cost of claims. The continued influx of Claims Management Companies is also having a negative impact on loss ratios.

What you can do to mitigate the effects

- With respect to severe weather events, integrate resilience and resistance measures into Property and Business Disaster Recovery Plans and work in tandem with local community initiatives.
- Ensure that you are planning for new and emerging risks such as cyber attacks that cause disruption to your organisation.
- Report all claims promptly to minimise delays, which may lead to increased legal costs and a poorer claims outcome.
- Be alert to possible fraudulent claims – we can support you with this, so please contact us if you need any further information.
- Notify your insurer in the event of any new claims/trends occurring – the earlier the notification is, the quicker claims trends can be identified and action taken to mitigate the costs or to make adjustments to the reserving policy as necessary to cater for these incidents.



Austerity and recession

Effects of austerity

Socially we are experiencing a difficult economic environment and austerity measures may mean fewer resources are available for such things as training, maintenance and repairs. An increase in social unrest has also been experienced and is predicted to continue.

Recessionary losses

Theft, arson, fraud and malicious damage all increase as a consequence of financial pressures. Sustained levels of unemployment are increasing the

potential for losses and fraudulent claims are reportedly costing the insurance industry over £2 billion a year.

Quality and management

With reduced budgets and a more competitive environment, we are seeing deteriorations in claims experience due to reduced funding for risk management. An awareness of the financial stability of key suppliers is also needed to minimise the risk of failure of critical services in supply chains.



What you can do to mitigate the effects

- Look at ways to ensure health and safety is not compromised if spending cuts in relevant areas have to be enforced. Remember to consider the positive cost benefits from an operation that is well maintained.
- Be aware of any potential risks which may arise from your supply chain, such as single supplier dependencies. Make sure you include these in your business continuity planning.
- Make sure you identify all passengers in third party vehicles, where your insured driver is to blame.
- Photographs of the accident site and the vehicles involved are helpful in supporting the claims where circumstances permit.
- Consider the potential for any social unrest within your community and through implementing risk management, plan for responding to this.
- Ensure your contracts work process is well managed from tender to final handover of the completed works and manage unoccupied buildings carefully.



Financial

Investment returns

Insurance companies previously enjoyed significant investment returns made from the premiums that are collected and held in reserve, to pay claims at a later date, which meant that there was less focus on making an underwriting profit. Very low interest rates have prevailed in the last few years to help stabilise the economy. However this has significantly reduced the investment returns insurers are now able to make. Therefore, in the current environment, rates need to increase to reflect the fact that there will be lower investment income earned. This is affecting all lines of business and is an industry-wide issue for insurers.

Solvency II

Insurers have to prove to the regulators that they can meet their liabilities to their policyholders and that they hold the required margin of capital. Good fiscal practice is, therefore, essential for insurers and a lot of resource has been put into being ready to fully satisfy these requirements. Zurich is proud of its financial rating and is confident in meeting the capital requirements. The importance of an insurer's stability should not be underestimated, as insurers pay long tail claims (such as liability claims) and need to be here in the future, not just for now in order to offer value. There is a cost attached to having a strong balance sheet, however, it is critical to ensure longevity and security.

What is Zurich Municipal doing to manage these influences?

We are actively managing the legal, claims, recessionary and financial impacts for you.

To mitigate claims inflation our claims teams invest in improving processes, systems, technical expertise and supply arrangements across all lines of business.

In Motor we have invested in the market leading V-case system provided by Validus which helps us combat credit hire claims, ensuring that each claim is robustly validated, our processes have been improved too, allowing our handlers to take ownership of the claim and make sound financial judgements to reduce significantly the potential for unsubstantiated large hire claims.

We have worked closely, supported by our legal panel, with the key decision makers at the Ministry of Justice to represent our customers' and our view points to influence the recent reforms to deliver a balanced set of measures that will present opportunities to significantly redress the balance between damages and legal costs.

We have won awards for our strong defensive position to combat fraud, a claims supply panel to reduce claims costs and an award winning risk management team.

What you can do to mitigate the effects

- Review and take into account an insurers financial strength when deciding where to place your business.
- In order to manage the volatility that the insurance cycle brings, at the outset, ensure your insurance programme fully reflects your budget, appetite for risk and capabilities in areas such as claims handling and risk management.

As an organisation we have a vested interest in the Public Services and Third Sector and will do all we can to defend claims on principle. We work closely with you to defend claims, including those where there is a risk of a precedence being set that would have detrimental consequences for you and others. A recent example that demonstrates our commitment:

In the case of Summers v Fairclough Homes the claimant grossly exaggerated his claim following a genuine injury at work. We used our technical insight and experience within Zurich Municipal to recognise that the application of the law in the case of fraud & exaggeration committed by claimants required changing.

In this land mark case we invested significantly in our legal defence to successfully argue that it is possible to strike out a third-party claim in its entirety at any stage of the process. We took this stance because of the impact of allowing claims where gross exaggeration and fraud were costing the industry and our customers many millions of pounds.

Although we did not succeed in having the whole of Summers's claim struck out for abuse of process the legal precedent was created and successfully applied in a subsequent case, Fari v Homes for Haringey. In this case a successful application was made by the defendant to strike the claim out as an abuse of process because of the gross exaggeration of the injuries sustained by Fari, even though the defendant had admitted liability for the tripping accident before the trial. In both cases surveillance techniques were used to provide evidence of the gross exaggeration by the claimants.

Overall we strive to minimise the impact of influences on pricing or the cost of claims by investing in our people and developing their expertise, investing in technology, having a robust investment strategy to minimise the impact of low returns, lobbying government on issues that matter to you, defending claims robustly, keeping you informed on the latest developments with publications (such as Court Circular) and continually focusing on reducing fraud.

Motor

Influencing Factors on insurance costs

Frequency of injury claims

For 2011 the frequency of third party bodily injury claims increased by 6% contrasting with a decline in the number of accidents by 11% (Source: Actuarial Profession Updated Report on Third Party Claims Sept 2012). This trend is continuing to negate the effect of reduced claim numbers overall. It is estimated that motor insurers are currently receiving around 1,500 claims a day for 'whiplash' injury with total costs running at £2 billion a year.

Fraudulent Claims/Crash for Cash

Staged collisions, theft and arson claims have all increased during the economic downturn. It is estimated that approximately 51% of all fraudulent claims experienced by insurers are motor related.

Changing Landscapes

There are currently more cyclists and motor cyclists on the road resulting in an increased frequency of death and serious injury losses from more vulnerable road users. In 2011, 107 cyclists were killed and 3,085 seriously injured, a 15% increase from 2010. The figures for motor cyclists saw an increase in death and serious injury of 8% to 5,609 in 2011. (Source: Datamonitor April 2013).

Future Care Costs

Increasing life expectancies with the advancement of medical treatment has led to substantial escalation in future care costs for those seriously injured. The increasing frequency of the use of Periodic Payment Orders to ensure adequate future care provision for the most vulnerable claimants is adding substantially to major injury awards. In PPO settlements, claimants requiring long-term care due to serious bodily injury receive an initial lump sum award together with inflation-linked annual payments, as opposed to a larger, single lump sum that permanently settles the case. This leaves significant uncertainty for insurers in the amount they will pay out in total for a claim. This means that when calculating premiums many assumptions on future mortality experience, the ASHE indexation, discount and inflation rates will need to be made. According to research carried out by Towers Watson, between 2008 and 2010, the number of large motor claims over £1m settled by PPO rose from 18% to 35%, a significant leap.

Credit Hire

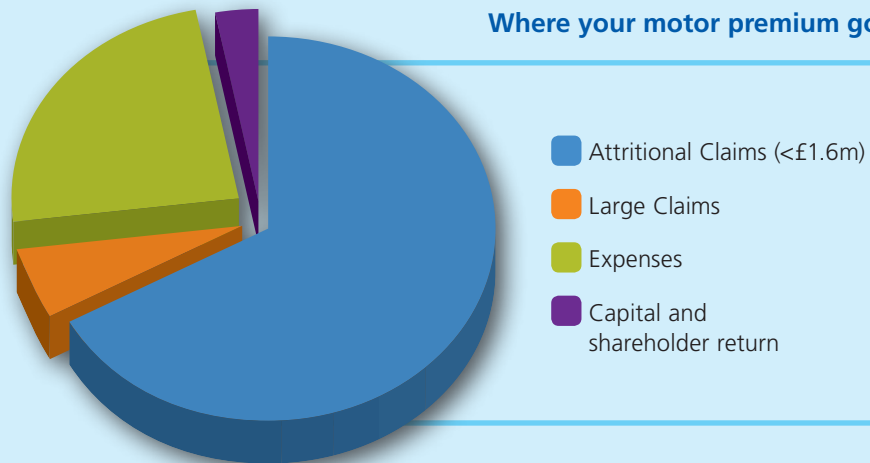
While the costs of parts and labour for vehicle repair continue to rise with inflation, repair costs increase substantially when credit hire and/or credit repair providers become involved.

What you can do to mitigate the effects

- Review your fleet management arrangements to ensure you are doing all that is possible to avoid or mitigate the effect of motor accidents.
- Ensure that the policy and procedures you have implemented to assess, analyse and understand the risks remain effective, particularly when looking at your drivers, the journeys they make and the vehicles they drive.
- Check that the precautions you have identified are being implemented and remain appropriate. These could relate to the selection of appropriate vehicles, maintenance and inspection of vehicles, driver assessment and training, driving licence checks, depot traffic management etc.
- Ensure that your fleet management/vehicle records are adequate. Your records can often help us to defend a claim, so it is essential they contain all the vehicle information, maintenance records, training details etc.
- In-vehicle technology is increasingly providing invaluable operational and risk management information in the control of all motoring costs.
- Consider the use of telematic boxes in your vehicles. They may have the effect of improving driving standards. Some devices could potentially have other benefits too, such as anti-theft tracking, or personalised records of employees driving.
- It is essential to report a claim as soon as possible and to ensure claim notification arrangements are robust. Early sight of third parties involved in a fault incident can avoid additional claims costs, which normally results from the involvement of credit hire or credit repair operators.
- Consider the use of the Zurich Approved Repairer Network for your own vehicle repairs, to keep your claims costs as low as possible.
- Advise us if you suspect any fraudulent claims so we can investigate on your behalf.



Where your motor premium goes



Casualty

Influencing Factors on insurance costs

Fraudulent liability claims – Across the insurance industry, we have seen an increasing number of fraudulent liability claims in the current economic environment. Statistics show that fraudulent liability claims have the highest average cost across the insurance market. Fraud rings have identified that where the Police and Insurers have developed sophisticated tools to tackle motor insurance fraud; fraud rings are moving to focus on other lines of business.

Ensuring good risk management practices – Whilst good risk management is something that we actively encourage, with the tightening of budgets, it is likely that financial resource will be allocated elsewhere. This may mean that health and safety employees, processes and training are not protected from spending cuts. Areas such as plant maintenance, machinery and inspection regimes, particularly of public facilities such as highways, footpaths, parks and open spaces tend to deteriorate under financial pressures. Reduced spending on risk management and safety monitoring systems however, can be a false economy and will lead to increased claims and a difficulty in providing the evidence to defend them.

Increasing care costs – With increasing life expectancies and the advancement of medical treatment, injury claims costs are escalating considerably. Furthermore, costs are spiralling as we are seeing an increase in the number of bodily injury claims that require long term care. As a result of these factors, we are seeing the costs increase dramatically.

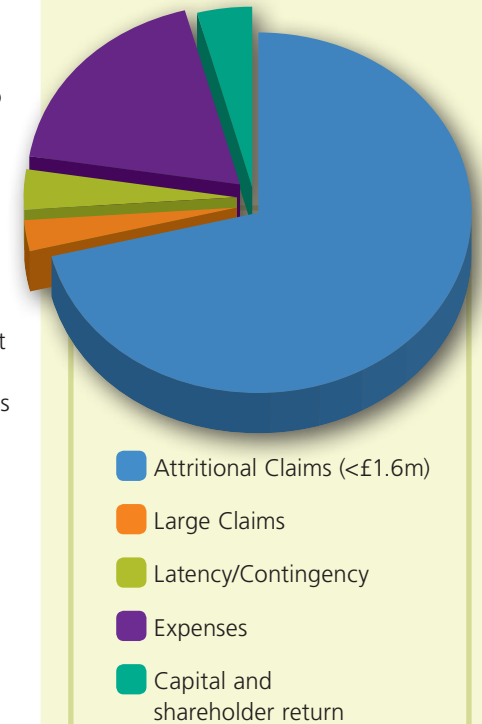
Emerging claims/risks – It is important that rates are set at the right level to reflect the potential for emerging risks. Historic claims related to asbestos exposures 30-40 years ago are well known but we are seeing an increase in other exposures developing such as abuse of children and vulnerable adults and noise induced hearing loss. Noise induced hearing loss is currently affecting insurers as these claims have become a further target for 'no win, no fee' companies. There will be other emerging risks, currently unknown, which will become the 'asbestos' or 'deafness' claims of the future. We must allow for emerging risks within our premium calculations, to provide cover for those claims that may have occurred, but have not yet been reported.

What you can do to mitigate the effects

- Consider the positive cost benefits from an operation that remains appropriately resourced and recognise the potential false economy of spending cutbacks – particularly on health and safety procedures and processes. The perceived short term gain in a financially pressured environment will often lead to higher costs in the long term.
- Maintain senior management commitment and leadership on health and safety managements and ensure that an adequate, structured and robust approach to managing the risks remains in place.
- Where changes are necessary, ensure that the risk implications of these are properly considered. In particular, look at ways to ensure health and safety is not compromised if spending cuts in some areas have to be enforced.
- Ensure that key competencies are retained including providing competent advice on matters such as health and safety. Ensure that roles and responsibilities remain clearly defined, particularly where significant changes are anticipated.
- Maintain the uniformity or consistency of risk management standards applied across areas involved in any re-organisation.
- Ensure that performance monitoring and the review of arrangements and procedures put into place to mitigate risk remains suitably robust to control risks.
- By implementing a proactive – and recorded system of managing risks including risk assessment and inspections, you will be better placed to reduce the number of incidents and claims and also be better placed to defend those claims that do arise. Early notification of potential risks from a regular inspection process can avoid injuries occurring or at least provide some defence against legal liability. It is important that you continue a regular inspection programme, complete any repairs promptly and maintain written records.
- Advise us if you suspect any fraudulent claims so we can investigate on your behalf.
- Legal costs in particular increase with time so it is important to report claims and respond to requests for information as soon as possible. New legislation may help but failure to respond within tight deadlines could prejudice any defence.

- Following the implementation of the MOJ reforms for Employer's and Public Liability claims in July 2013, timescales to manage claims will reduce significantly and you'll need to be aware of the changes to ensure the right claims are kept within the portal and legal costs are kept to a minimum. For example, it is critical that all relevant documentation to support the defence of a claim is provided to us in good time. In addition, we will need your support to help us investigate claims quickly, supply wages information on EL claims in a timely manner and work with us to make quick decisions on liability. All of these factors will help us, help you. For more information please refer to our separate communications bulletins on the MOJ reforms or please contact us.

Where your Casualty premium goes



Property

Influencing Factors on insurance costs

Property claims frequency –

Whilst numbers fluctuate, recessionary pressures can have an effect, particularly in relation to theft (metals), malicious damage and arson.

Fraudulent claims – Recent increases in the volume of potential fraudulent claims reported have been identified in certain areas.

Risk improvement – A lack of available funds and postponing of capital funded risk improvement projects leads to a decline in the overall property risk quality if the building maintenance is neglected and physical security is inadequate. This has led to an increase in Escape of Water claims in particular.

Climate change – Volatility in weather patterns, coupled with population migration with subsequent increased exposure to higher risk areas; such as flood plains and storm water run-off areas.



Large catastrophe losses –

Greater incidence of storms, flooding and earthquakes have led to reinsurance costs rising. The cost and frequency of the events themselves are significant. Pricing assumptions for catastrophe losses have been increased accordingly.

Escape of water losses – The main contributory factors to an increasing trend of escape of water claims are; cold winters, a surge in renting and subletting, a lack of maintenance, poorer construction methods used combined with a shortage of skilled trades leading to the increased use of transient and unskilled workers. This together with the upgrading of properties to include increased numbers of bathrooms, showers and wet rooms, more plumbed appliances than ever before inside our properties as well as an increase in DIY improvements and repairs have further compounded the issue.

Social habits – The use of chip pans, candles, electrical equipment and smoking are all social habits which can result in severe fires. Chip pans and candles may catch fire if left unattended or too close to flammable materials, faulty electrical equipment or power sockets can be overloaded with multiple devices and cigarettes which have not been properly extinguished all present a fire risk

Health & Safety – Fire brigades will not generally send their personnel into burning buildings unless there is a threat to human life, plus their coverage is reducing. This can increase the severity of losses, thereby increasing claims costs.

Building regulation – Changes to meet the carbon footprint reductions and other environmental targets are increasing inflationary costs with respect to partial and total building reinstatements.

Modern methods of construction – Greater use of combustible materials such as timber frames and polystyrene insulation, as well as fast build lightweight constructions have led to an increased severity of losses, particularly in respect of fire and storm events.



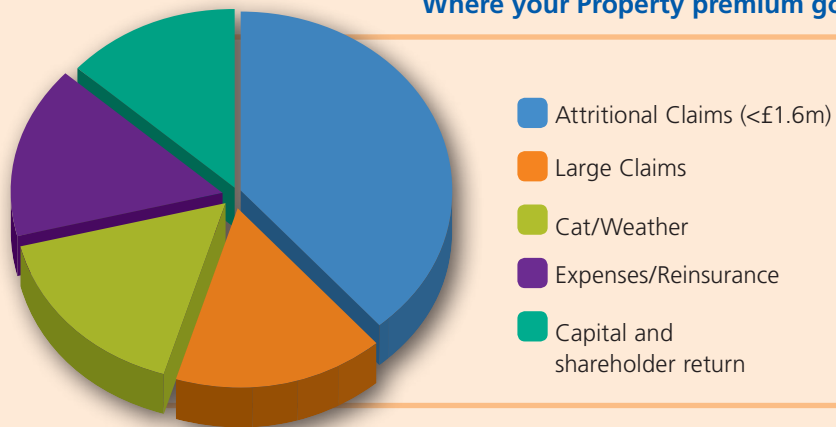
What you can do to mitigate the effects

- Improve your security with installation of improved fencing, locks, intruder alarms or CCTV.
- Advise us if you suspect any fraudulent claims so we can investigate on your behalf.
- Carry out identity and background checks on tenants.
- Ensure that adequate resources are set aside for regular maintenance and carry out checks on the quality of any work carried out.
- Whilst you can't control the weather you can plan for its effects. Regular maintenance is key plus you may also wish to consider the replacement of lightweight materials with something more robust.
- We can help you identify high risk locations where you can prioritise resources to improve facilities and be more prepared for the consequences of a major event.
- Ensure pipework is adequately maintained, keep property temperatures at a minimum of 10 degrees centigrade even when unoccupied to stop the risk of pipes freezing and bursting, use appropriately qualified workmen, ensure pipes and tanks are well lagged and ensure you or your tenants know

where to find stop cocks and how to shut off the water supply quickly in the event of a leak.

- Give clear guidance to employees and tenants about the risks involved and ensure smoke alarms are fitted and working. Ensure electrical appliances owned or provided with properties are regularly tested.
- Consider improving your own fire protections with the installation of fire sprinkler, suppression or detection systems.
- Carry out periodic revaluations of your properties to ensure you have adequate rebuilding sums insured and keep abreast of the current building regulations.
- Avoid the use of more flammable materials in new or replacement building. More robust alternatives are usually available and although they may sometimes be more expensive now the long term costs could be more beneficial and minimise health and safety issues in the future.

Where your Property premium goes



Conclusion

We hope this document has helped you to better understand the different factors influencing insurance premiums and claims costs.

We also hope that the information provided enables you to improve your risk management and helps you to influence the cost of your insurance and your budgeting in the future.

If you would like more detailed information on any of the points covered within this guide please contact us.

In the current economic environment, you can be sure that you're working with risk experts who will support you to create organisational resilience.

Appendix A

Zurich Municipal is a trading name of Zurich Insurance plc, a public limited company incorporated in Ireland Registration No. 13460. Registered Office: Zurich House, Ballsbridge Park. Dublin 4, Ireland. UK Branch registered in England and Wales, Registration No. BR7985. UK Branch Head Office: The Zurich Centre, 3000 Parkway, Whiteley, Fareham, Hampshire PO15 7JZ.

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