

Turning point: Market outlook for personal lines insurance

LCP's annual market projections of motor, home and pet insurance in the UK

2026

Introduction

Welcome to our annual motor, home and pet market review.

After three loss-making years, **motor insurers** returned to an underwriting profit in 2025. Rate increases in 2023 and 2024 earned through, bringing the market net combined operating ratio down to 96% in the 2025 financial year. However, we expect this recovery to be short-lived. Premiums softened through 2025 as insurers competed for volume, and those reductions are now earning through while claims costs keep rising.

For **home insurers**, 2025 was a more difficult year. The hot, dry conditions over summer drove subsidence claims to a record high and pushed up fire claims, and together with softer premiums this took the net combined ratio up to 104%. A second consecutive dry summer means 2026 is set to be another subsidence surge year.

The UK **pet market** grew over 2025, with premiums up 6% to around £2.6bn. However, hotter summers have pushed up claim frequency and loss ratios.

We see 2026 as a turning point. Rates have started to rise again in both motor and home, but not quickly enough to offset claims inflation. We project both markets to be loss-making in 2026 and 2027.

This report sets out what drove recent performance, our projections of market-level performance for 2026 and 2027 and key issues for insurers, including: motor frequency trends, subsidence, underinsurance, the CMA's veterinary remedies and the regulatory focus on claims handling.

We are pleased to share our latest insights into the motor, home and pet insurance markets.

Get in touch to find out how we can help you improve your own performance.



Ed Harrison
Partner



Charl Cronje
Partner



Katie Garner
Senior Consultant



Richard York-Weaving
Senior Consultant



Edward Gaughan
Consultant



Gayatri Patel
Senior Consultant

Data and limitations

Data:

This report uses publicly available financial data, SFCRs, ABI data and FCA data.

Solvency UK:

- The transition from Solvency II to Solvency UK introduces potential inconsistencies in how insurers allocate and report expenses.
- In addition, Solvency UK no longer provides net claims data on a discounted basis, split by line of business. Our report uses net undiscounted data for 2024 and 2025.
- Solvency UK reporting separates personal and non-personal lines from 2024 onwards, giving two years of distinct personal lines data. Note that expenses are not split on the same basis.

Limitations:

- Quarterly Reporting Templates (QRTs) remain a key source for insurer financial data but continue to exhibit inconsistencies across firms and reporting periods. While we have applied data cleansing and validation checks, there may still be residual inaccuracies in individual firms' data which could influence overall results.
- Pet market data for 2025 is sourced from FCA general insurance value measures, whereas 2024 and prior are based on ABI market statistics. 2024 is shown on both bases for continuity. Differences in coverage and definitions may affect comparisons between years.
- Readers are encouraged to consider these projections alongside their own internal data and market intelligence.
- **Note that there were a number of revisions to the ABI data during 2025 and early 2026, affecting reported experience across multiple years. These revisions have affected comparability, particularly between 2024 and 2025, so trends should be interpreted with caution. In this update, we have relied on the most recent ABI data available as at 2026 Q2 in setting our assumptions and forming our view of market performance.**

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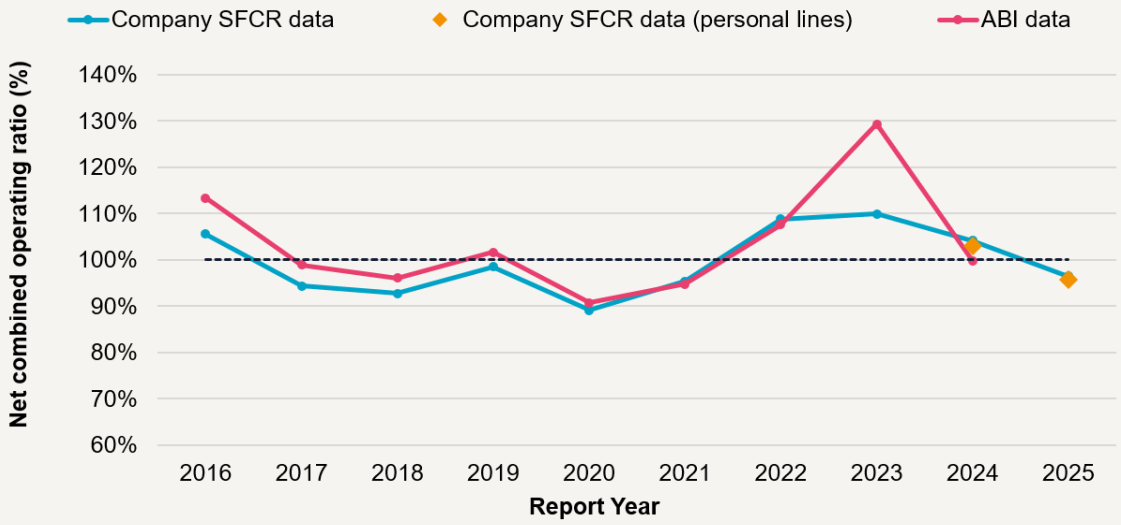


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Motor – key highlights

Recent performance

The motor market returned to an underwriting profit in 2025, with a net combined operating ratio (COR) of 96%. This followed three loss-making years from 2022 to 2024, when claims inflation pushed the COR as high as c.110%. The improvement came mainly from relatively high average premiums written in 2024 earning through, and a return to more typical claims inflation.

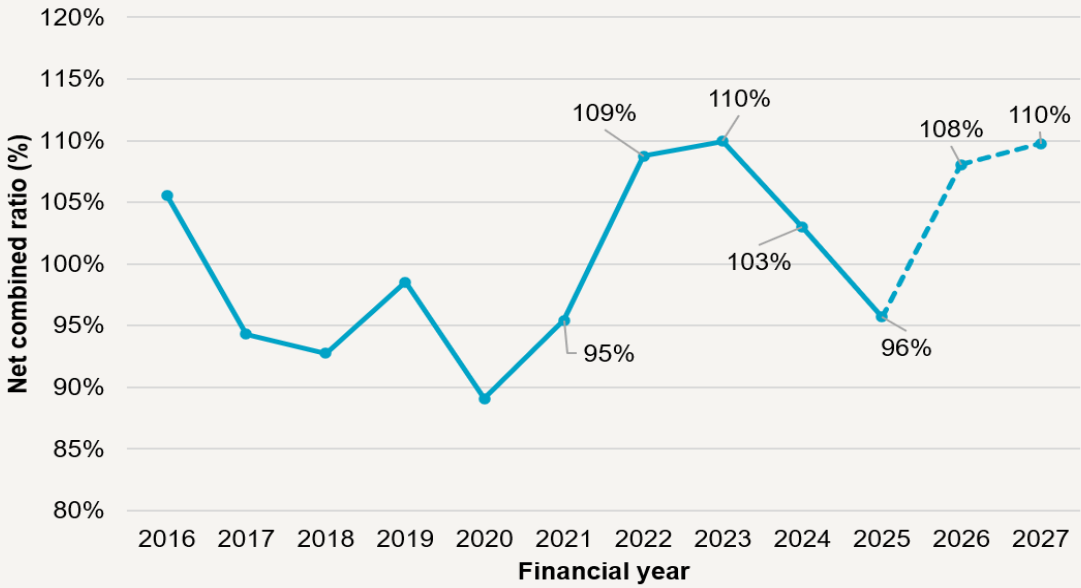


Note: SFCR data for 2023 and prior includes both personal and commercial motor business. From 2024, Solvency UK reporting separates personal and non-personal lines of business. For 2024 and 2025, we have allocated total technical expenses to motor so that results can be compared to 2023 and prior. There is a notable divergence between ABI and SFCR CORs in 2023.

Future projections

We project the market to return to loss-making territory in 2026 (108%), with a slight further deterioration in 2027 (110%), driven by:

- Lower earned premiums following the 2025 softening; and
- Burning-cost inflation of around 7% in 2026.



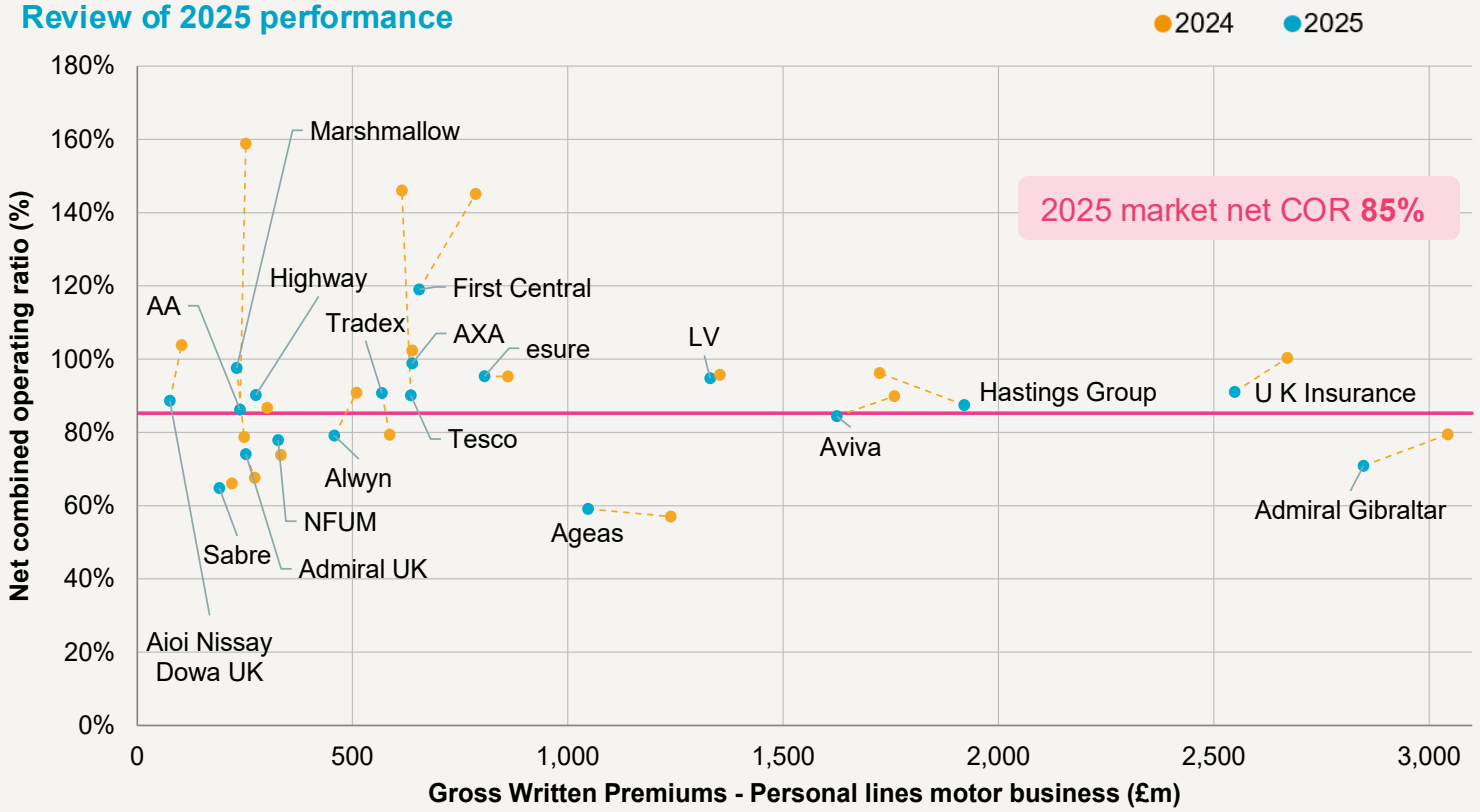
While rate increases are projected to resume, they are not expected to earn through quickly enough to offset claims-cost and expense pressures.

Source: 2025 & prior net combined ratios based on company annual SFCRs via Solvency II Wire Data

Motor – recent performance

The chart below shows the net combined operating ratio and gross written premium for a sample of individual insurers in 2024 and 2025. The **pink line** shows the aggregate market net combined ratio for this sample.

Review of 2025 performance



Highlights

Most insurers in this sample **reduced gross written premium from 2024 to 2025,** reflecting generally lower average written premiums in 2025.

Generally, results improved in 2025, reflecting the earning through of higher average premiums written in 2024.

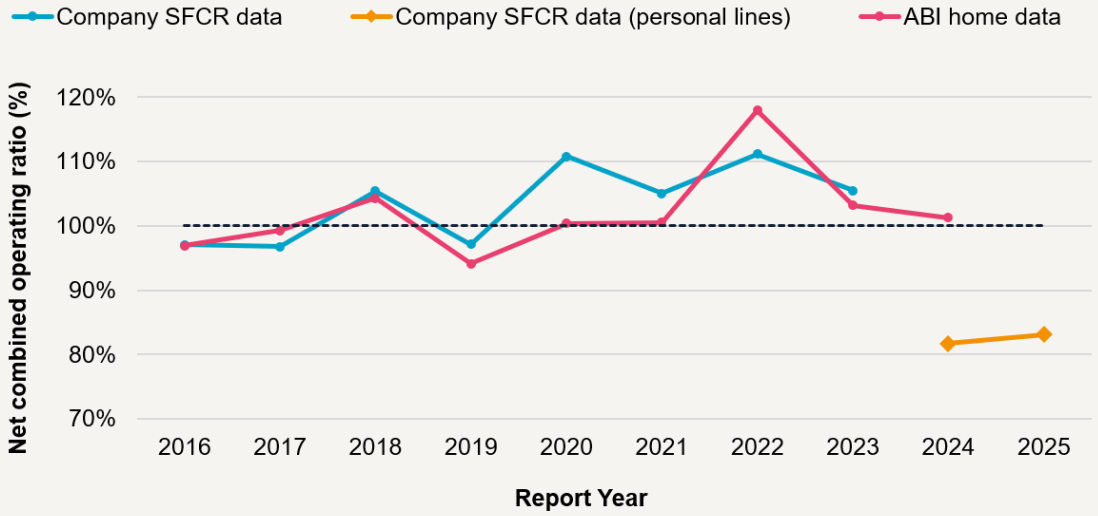
Results remain widely spread around the market average, reflecting differences in portfolios, claims experience and prior-year reserve movements.

Individual results are shown after allowing only for acquisition costs, commissions and claims-management costs. On this basis, the aggregate motor market net COR for 2025 is 85%. For context, including all other technical expenses increases the market net COR to 96%.

Home – key highlights

Recent performance

Home results have been volatile, driven by weather, the Covid-19 pandemic and high inflation. In 2025, insurers paid out a record amount in property claims across home and commercial lines. The hot, dry summer drove domestic subsidence payouts and pushed up fire claims, all while premiums were softening.



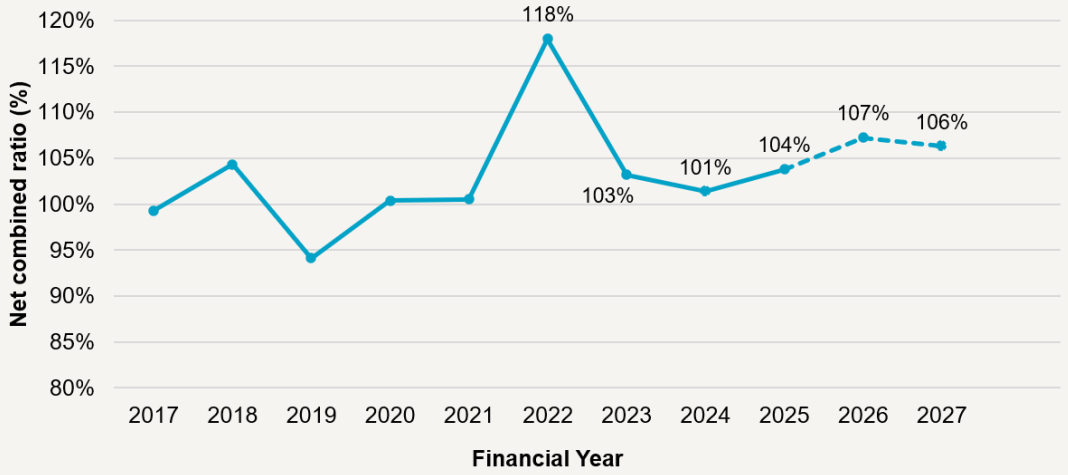
Note: ABI data is for home only. SFCR data for 2023 and prior is for 'fire and other damage to property', including commercial property. From 2024 it is home only, due to Solvency UK reporting changes. SFCR expenses for 2024 and 2025 include only acquisition costs, commissions and claims-management costs; they do not include total expenses. Therefore, the net CORs above for these years are not comparable to earlier years.

Source: 2025 & prior net combined ratios based on company annual SFCRs via Solvency II Wire Data

Future projections

Our expectation is an increase in net combined operating ratios (net CORs) for 2026 (107%) and 2027 (106%), driven by:

- A second consecutive subsidence surge year in 2026
- Higher claims severity pushing up burning costs
- Rate increases that are below the rate of claims inflation
- Allowance for an expected increase in provisions on prior years

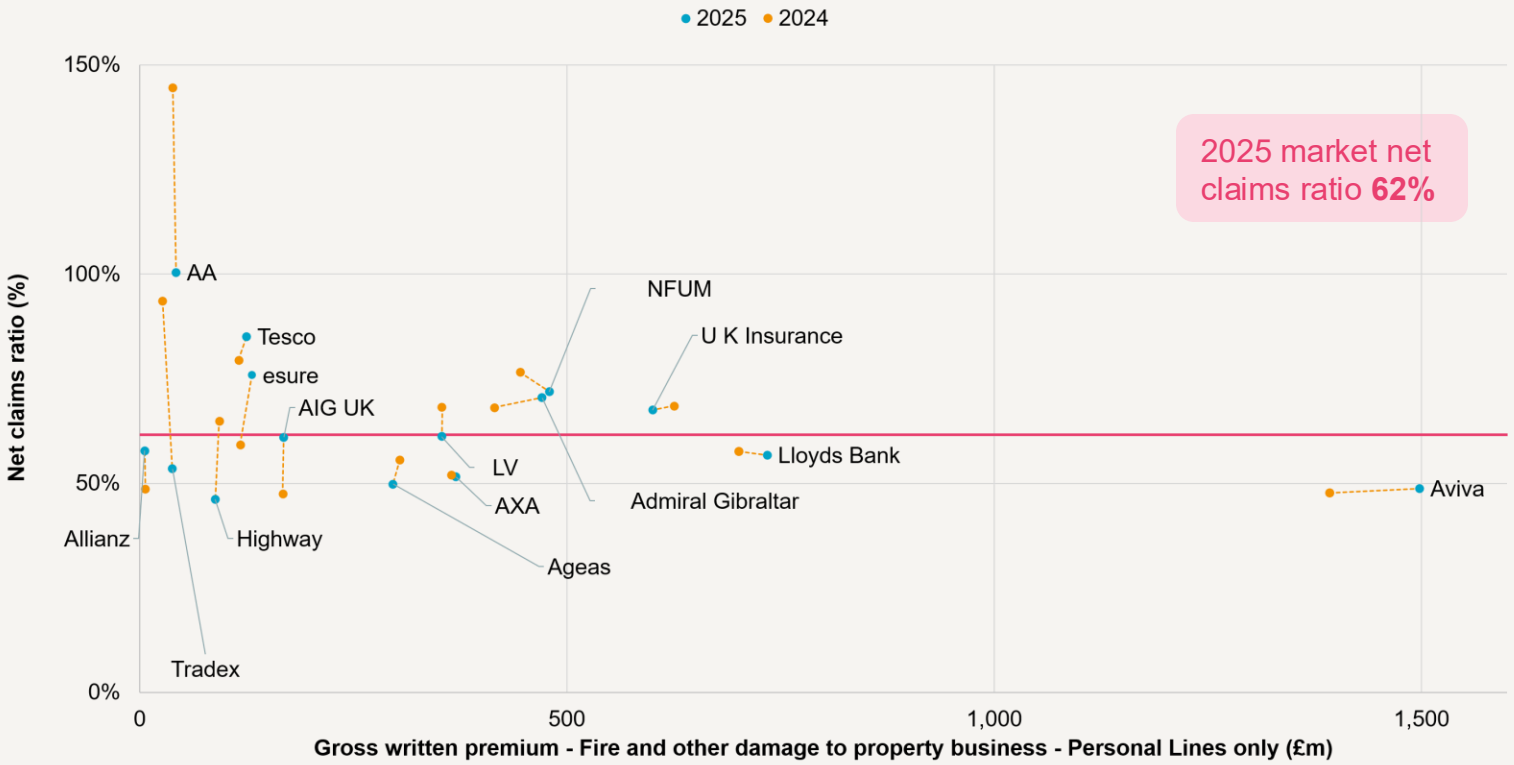


Note: This chart allows for total technical expenses in all years. For 2025, we apply the SFCR claims ratio with an allowance for total technical expenses and changes in provisions for prior years.

Home – recent performance

The chart below shows the net claims ratio and gross written premium for a sample of individual insurers in 2024 and 2025. The **pink line** shows the aggregate market net claims ratio for this sample.

Review of 2025 performance



Note that for home insurance, individual insurers results are presented as net claims ratios. This differs to the approach used for motor insurance results on page 6.

Highlights

Average premiums fell through 2025 as the market softened, but most insurers in the sample still grew their gross written premium, helped by an increase in policy volumes since 2024.

From 2024 to 2025, **60% of insurers in the sample saw an improvement in their loss ratios.**

However, the net combined ratio for the home market in aggregate **worsened from 101% in 2024 to 104% in 2025**, reflecting softer premiums alongside higher subsidence and fire claims driven by hot, dry weather.

Hot topics for the 2026 year-end

Motor



Geopolitical uncertainty has renewed the risk of **energy-led inflation and sustained cost pressure**, although at present supply chains appear more resilient than in 2022.



Premiums have **started to increase in 2026**, suggesting that the **softening cycle has bottomed out.** However, increases remain modest and premiums are **below 2025 levels.**



The **picture on claim frequency remains mixed**, with claims propensity influenced by **affordability pressures** and premium levels. Advanced driver-assistance systems (**ADAS) and growing Electric Vehicle (EV) adoption** will further affect claims frequency and severity over time.



Regulatory attention remains focused on fair value, claims handling and good customer outcomes. Insurers are also **expanding AI use** across the value chain, offering efficiency gains but requiring effective oversight.

Home



Prolonged warm and dry conditions through 2025 and 2026 have resulted in elevated subsidence claims. 2025 and 2026 will be the **first consecutive subsidence surge years since the mid-1990s.**



Home insurance **premiums fell through early 2026** following increases in prior years, but have **increased in 2026 Q2** as insurers respond to **claims costs and weather losses.**



Average claim costs continue to rise while premiums have fallen, squeezing margins. **High rebuild-cost inflation** since 2020 also creates a risk of underinsurance where **sums insured may not have kept pace with the true reinstatement cost.**



Weather claims have been benign in 2025 and 2026 to date, but the **strong El Niño increases the risk of a stormier winter**.

Hot topics for the 2026 year-end

Pet

The **CMA investigation** into UK veterinary services for household pets was prompted by **growing concerns around competition, transparency and consumer outcomes** in the veterinary sector. The CMA published its final findings in March 2026 and on 22 September 2026 put binding Orders in place for its remedies, with **compliance requirements being phased** in from December 2026 onwards.

Veterinary fees continue to be affected by **wage, medicine and operating-cost pressures**. Disruption in the energy market may add further volatility, increasing pressure on claims cost.

The pet market continues to be a **highly competitive space with multiple new entrants joining over the past 12 months**.

The **hot and dry conditions** experienced during the summers of 2025 and 2026 likely **drove an increase in the number of claims** for heatstroke, dehydration and grass-seed injuries.



Motor projections

Motor insurers face a challenging outlook, with rising claims costs and last year's premium reductions eroding the recovery in profitability. Premiums have started to rise in 2026 but increases remain limited against a backdrop of persistent claims inflation. We expect a return to underwriting losses in 2026, with further deterioration in 2027.

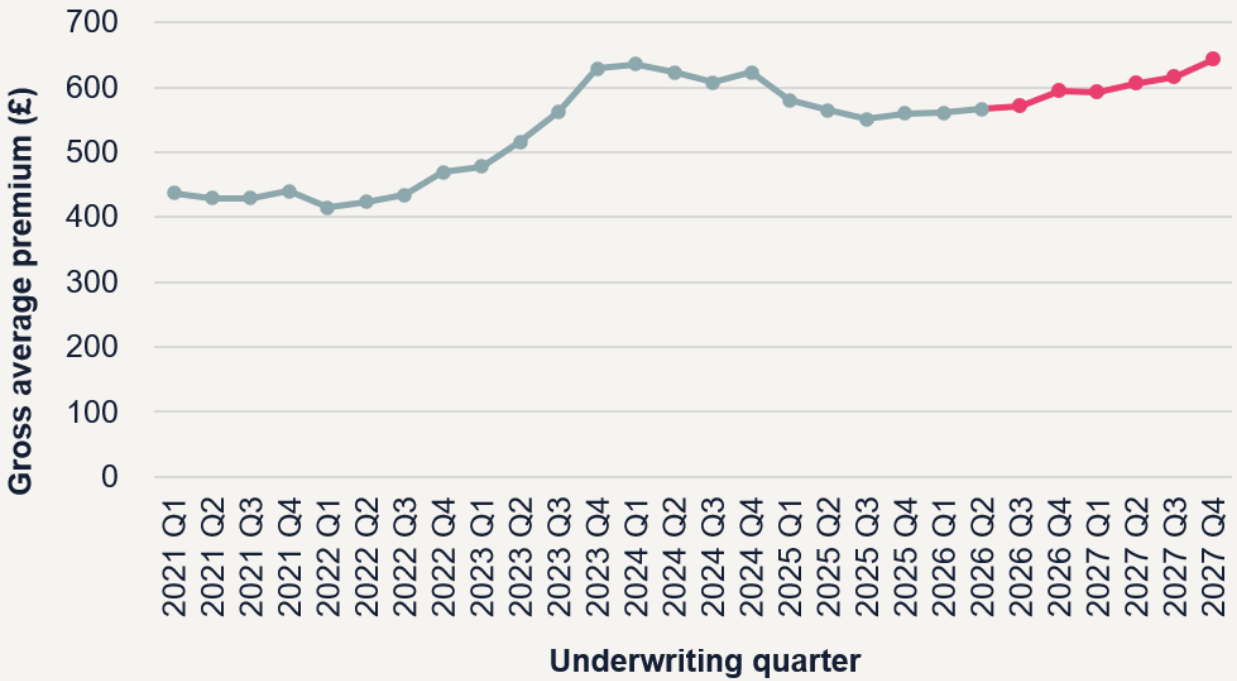
Richard York-Weaving, LCP



Motor – written premiums

The following chart shows gross average premiums by underwriting quarter from 2021 Q1 to 2026 Q2, including our projections for 2026 Q3 to 2027 Q4.

Gross average written premiums



Key highlights

Strong increases in average premiums over 2023 in response to high claims inflation.

Premiums held **broadly flat across 2024,** then **softened through 2025** as insurers competed for volume.

Premiums have shown **modest increases in 2026** to date. We project these to continue in H2, with **rates increasing c.6%** over the course of the year.

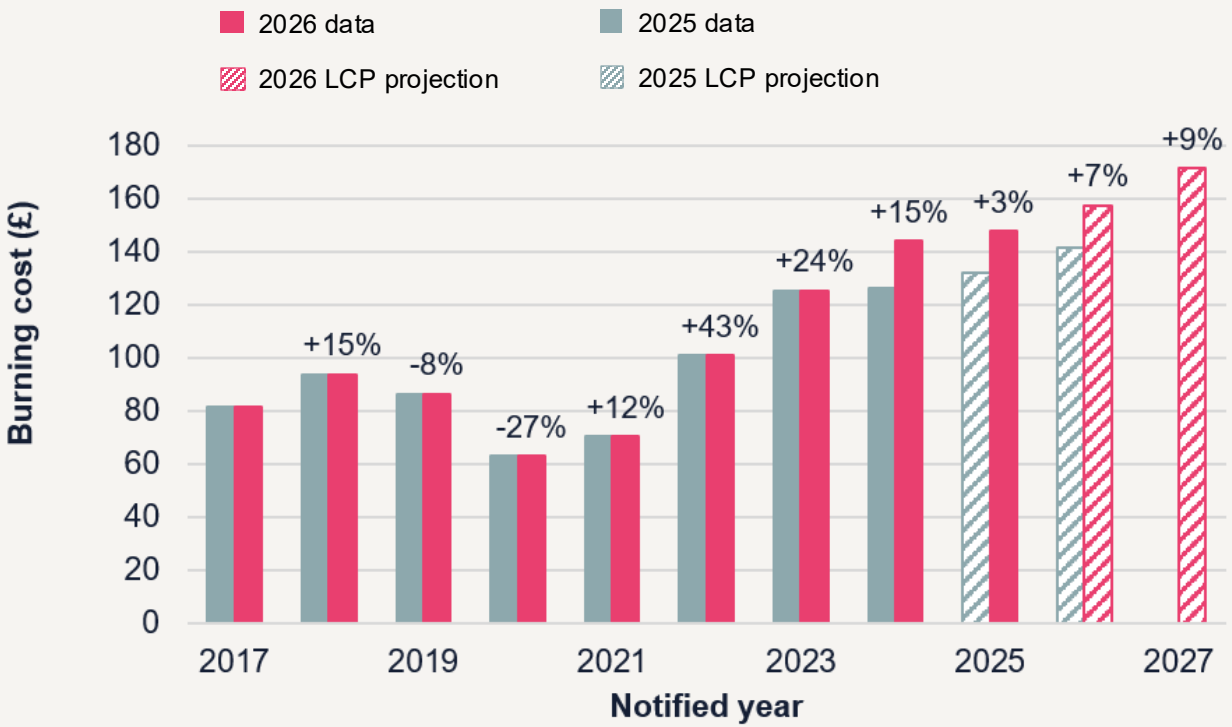
We project **stronger rate increases in 2027,** of c.8% over the year, as pressure on underwriting results builds. Even so, we expect the market to be **loss-making in 2026 and 2027,** as increases take time to earn through.

Source: ABI motor premium and claims tracker – 2026 Q2

Motor – accidental damage

Accidental damage (AD) claim trends have been distorted by the Covid-19 pandemic and lasting changes to driving habits. **The ABI revised its data during late 2025, affecting reported 2024 and 2025 experience, so care is needed when interpreting year-on-year movements**. We expect burning costs to increase in 2026 and 2027, driven by continued severity inflation as newer vehicles become more complex and costly to repair.

Burning cost



Source: ABI motor premium and claims tracker – 2026 Q2

Key highlights

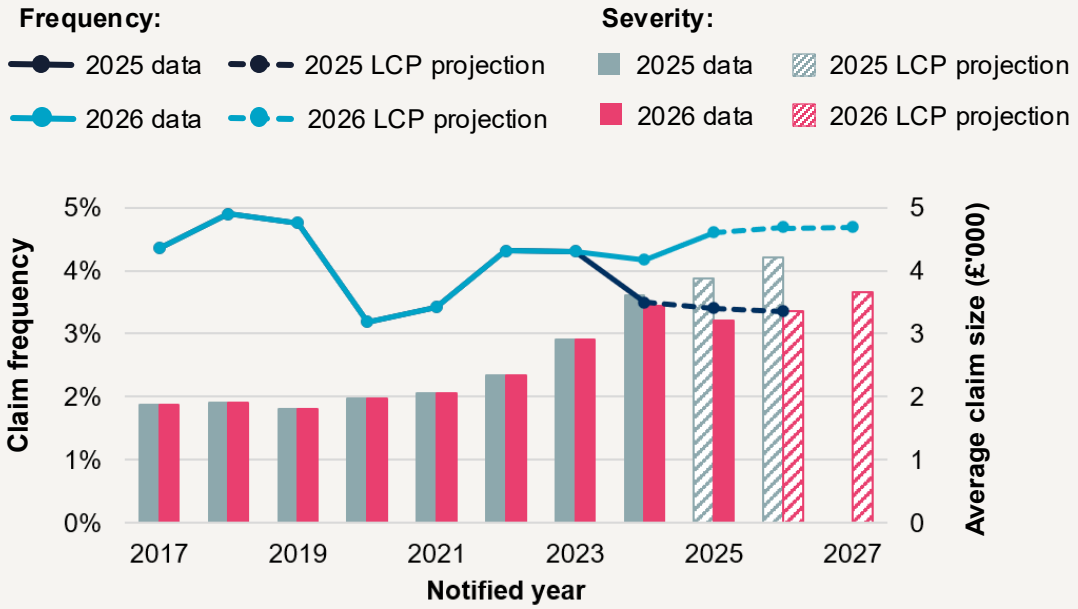
Slowdown in burning cost inflation in 2025, driven by a fall in reported severity, which partly reflects the ABI data revisions.

Frequency rose in 2025, but this does not necessarily imply worsening road safety: traffic levels, weather, propensity to claim and data revisions may also explain the increase.

We expect **high single-digit burning cost inflation** in 2026 and 2027, driven by broadly flat claim frequency and continued severity inflation.

Motor – accidental damage

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2025	+10%	-7%	+3%
2026	+2%	+5%	+7%
2027	+0%	+9%	+9%

Source: ABI motor premium and claims tracker – 2026 Q2

Frequency

- Frequency **increased from 2024 to 2025**, coinciding with a fall in claim severity. Part of this movement may reflect the ABI data revisions.
- Frequency is sensitive to mileage, congestion, weather and propensity to claim. The safety benefits of ADAS are likely to emerge only gradually as newer vehicles make up more of the market. We are therefore **assuming broadly flat claim frequency** into 2027.

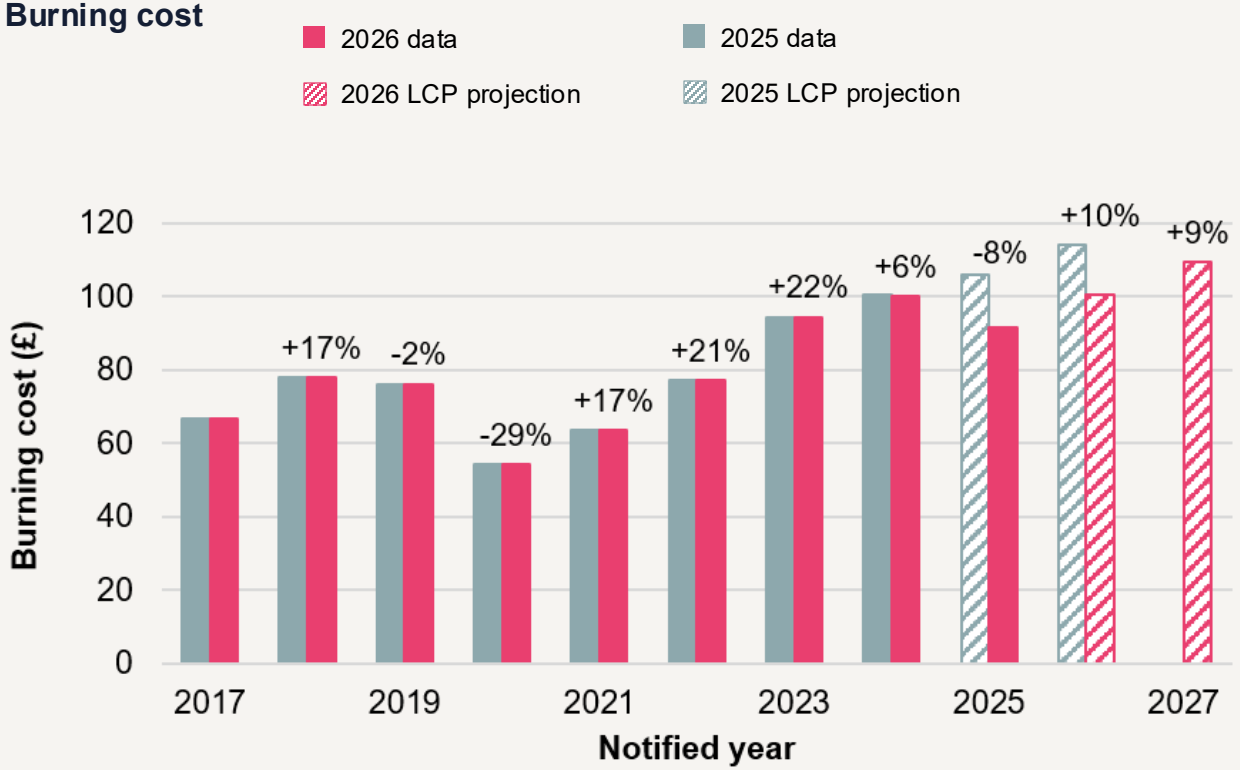
Severity

- **Severity fell in 2025** after a period of high inflation, although the ABI data revisions make this movement harder to interpret.
- We expect an **increasing trend in 2026 and 2027. Repair complexity** remains the key driver: newer vehicles need more diagnostics, specialist labour and sensor calibration after even moderate damage. Parts availability and repair capacity also affect both repair costs and the likelihood of a vehicle becoming a total loss.
- In particular, we project that severity inflation for AD claims will be **6% pa higher** than CPI. This reflects longer-term above-CPI inflation on motor AD, driven primarily by the increasing sophistication of car parts.

Motor – third party damage

Like AD, third party damage (TPD) trends have been distorted by the Covid-19 pandemic, and lasting changes to driving habits since Covid-19 have reduced TPD frequency proportionately more than AD. TPD burning cost fell in 2025, largely because reported severity fell following the ABI data revisions.

Burning cost



Key highlights

Burning cost fell in 2025, driven by a fall in reported severity, which partly reflects the ABI data revisions.

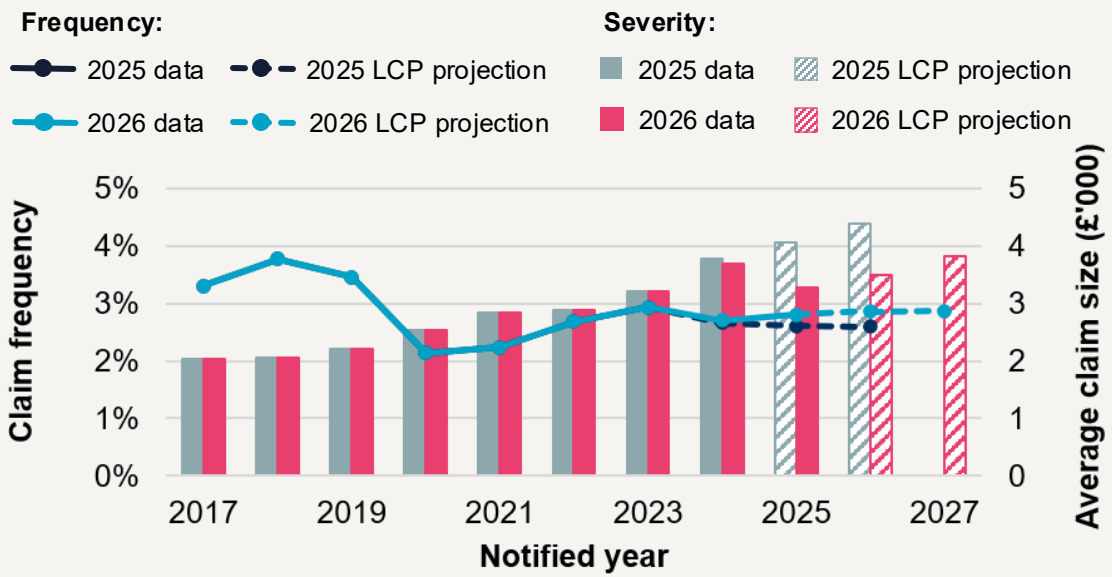
Frequency was slightly **higher than we projected last year**, but severity was significantly lower, leaving burning cost **below our projection.**

We expect **higher burning cost inflation** in 2026 (+10%) and 2027 (+9%), driven by ongoing claims cost pressures as frequency levels off.

Source: ABI motor premium and claims tracker – 2026 Q2

Motor – third party damage

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2025	+3%	-11%	-8%
2026	+2%	+7%	+10%
2027	+0%	+9%	+9%

Source: ABI motor premium and claims tracker – 2026 Q2

Frequency

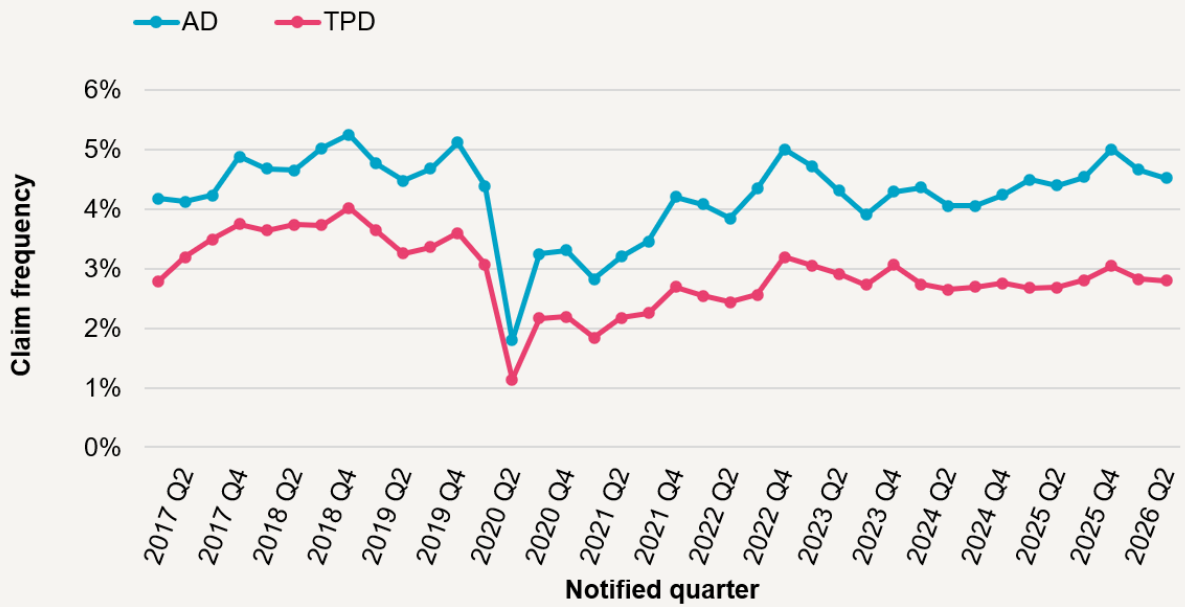
- **Changes to driving habits post-pandemic appear to have resulted in greater frequency reductions on TPD** than on AD (see next page).
- Claim frequency increased from 2020 to 2023 and again in 2025, potentially reflecting changes in traffic levels, claims propensity and the cost of repair, while safety benefits from newer vehicle technology are likely to emerge only gradually.
- Consistent with AD, we are assuming broadly flat claim frequency into 2027.

Severity

- After a period of high inflation, **reported severity fell in 2025**. We interpret this as being due to the changes in data, rather than a genuine significant reduction in severity.
- We expect **claim severity to rise in 2026 and 2027**. While ADAS may gradually reduce claim frequency, its sensors and cameras make repairs more expensive.
- In particular, we project that severity inflation for TPD claims will **be 6% pa higher than CPI**.

Motor – third party damage

Claim frequency – AD vs TPD – quarterly



Source: ABI motor premium and claims tracker – 2026 Q2

In focus – AD vs TPD frequency trends

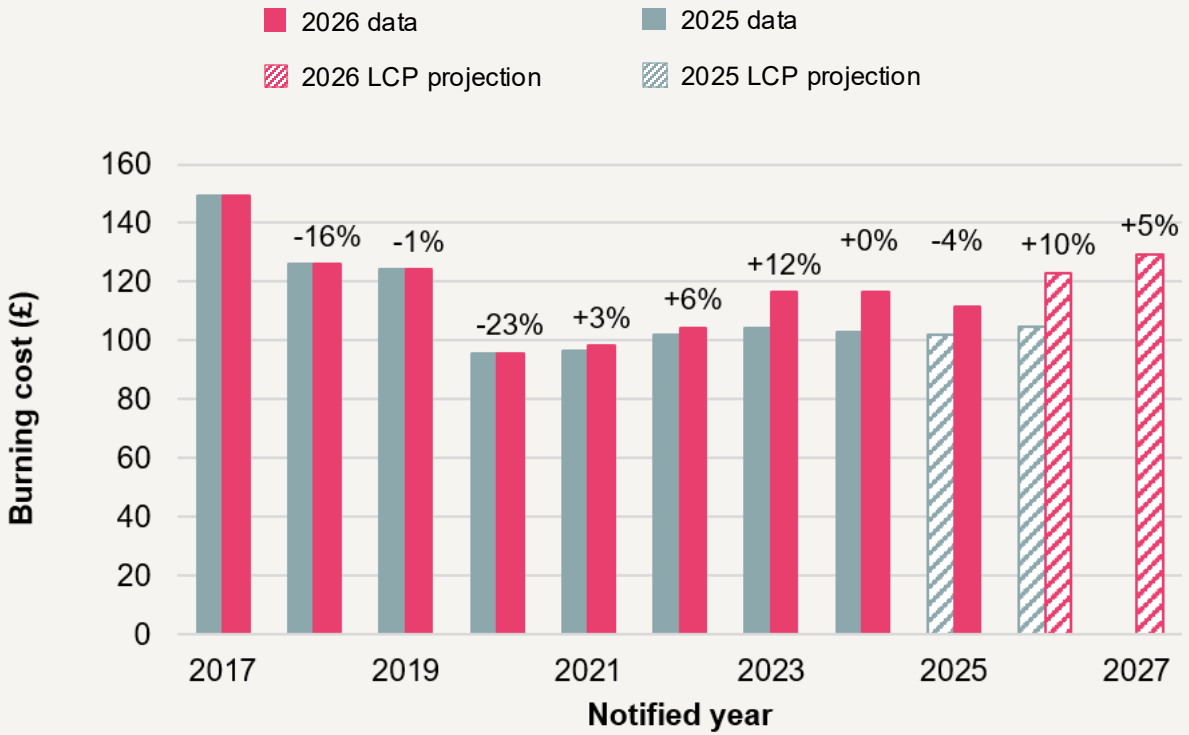
Claim frequency for AD and TPD follows broadly similar patterns. However, there are some notable differences:

- AD frequency appeared to be returning **close to pre-Covid levels at the end of 2022.** It then saw a clear reduction, before **gradually increasing over 2024 and 2025.**
- TPD frequency remains below pre-pandemic levels. **Lasting changes in commuting patterns** may partly explain this.
- Increased use of ADAS is likely to have a **proportionately larger effect on TPD than AD** as ADAS is more focused on collision avoidance.
- The gap between AD and TPD frequency has **widened over 2024 and 2025**. One possible explanation is that, as premiums have softened, **policyholders are more willing to claim** for minor accidental damage.

Motor – bodily injury

BI claims range from small payouts for minor injuries to multi-million pound settlements for the most severe injuries, and the factors driving small and large claims are very different. Although we project frequency to be broadly stable overall, our projections are particularly sensitive to large-loss experience and the mix of injury claims.

Burning cost



Key highlights

Burning costs **remain below pre-pandemic levels**, due to a combination of reduced third party accidents and the **impact of the whiplash reforms.**

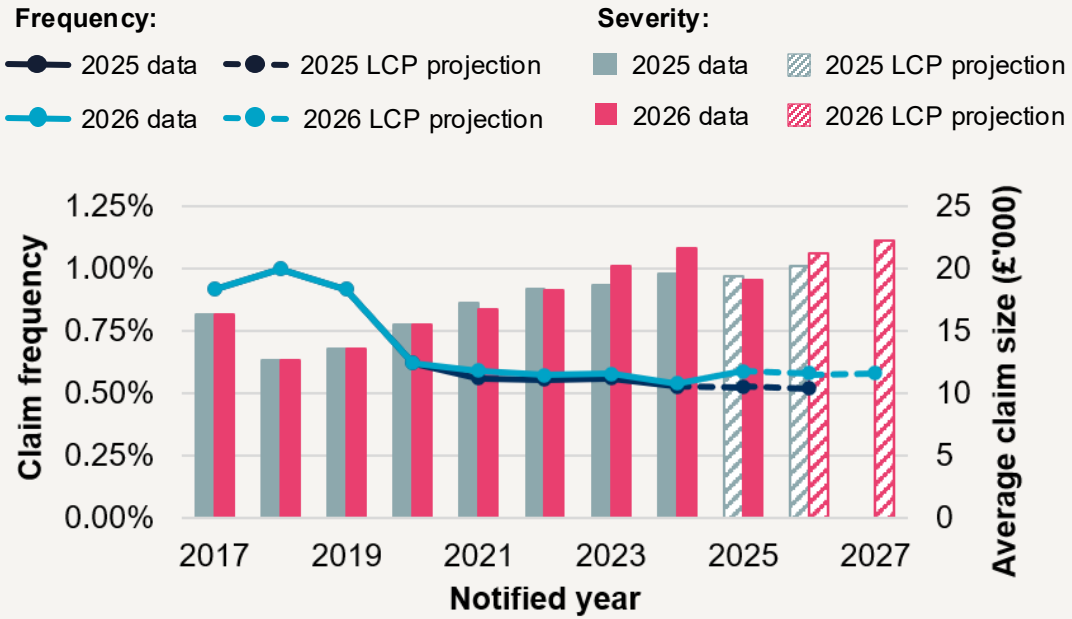
Large BI claims are slow to develop, and **wage inflation, care costs and settlement delays remain key risks.**

Burning cost **fell slightly in 2025** due to a dip in reported severity. We expect **around 10% inflation in 2026**, reflecting that 2025 severity may have been an isolated low point, and then a return to **mid-single digits in 2027**.

Source: ABI motor premium and claims tracker – 2026 Q2

Motor – bodily injury

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2025	+9%	-12%	-4%
2026	-1%	+11%	+10%
2027	+0%	+5%	+5%

Source: ABI motor premium and claims tracker – 2026 Q2

Frequency

- Frequency **remains well below pre-Covid levels**. This is primarily due to the **whiplash reforms**, effective from 31 May 2021, which resulted in a c.20% reduction in BI frequency.
- Frequency **increased in 2025**, although part of this movement may reflect the ABI data revisions. We are projecting that claim frequency will be **broadly flat** into 2027.

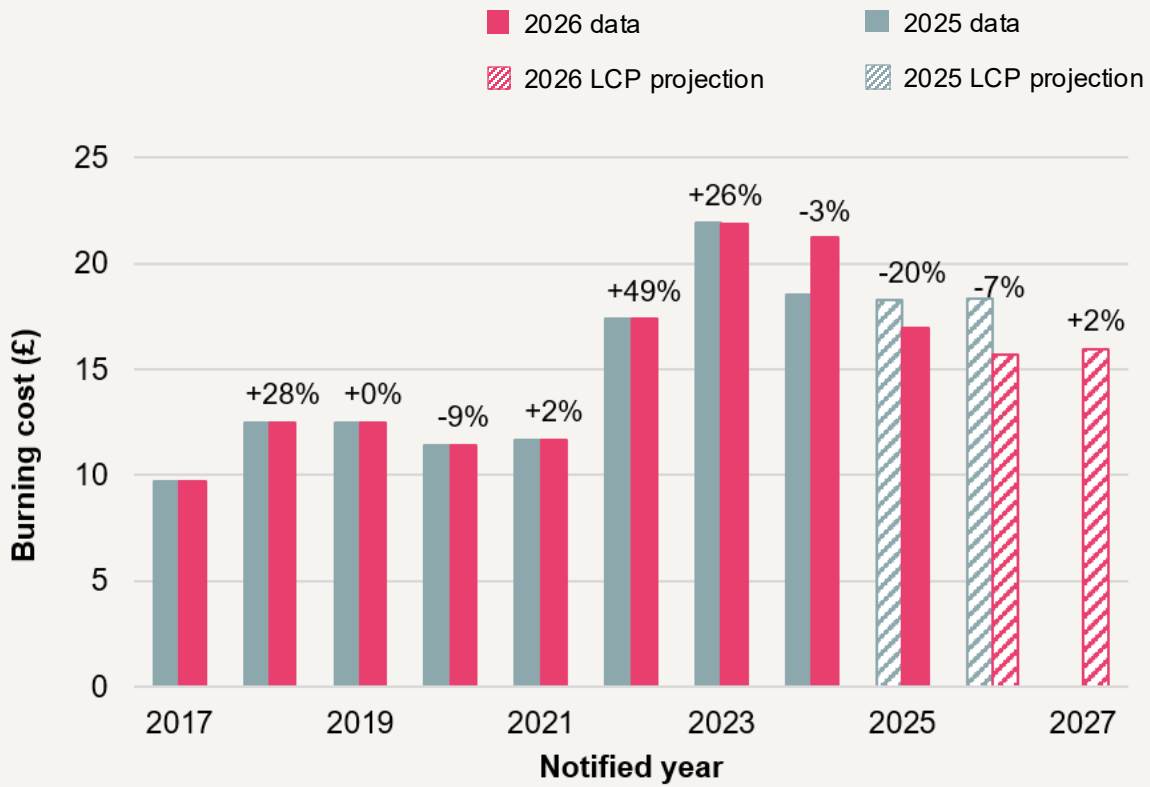
Severity

- Severity has generally increased since the start of the pandemic, as Covid-19 and then the whiplash reforms have **reduced the proportion of smaller BI claims.**
- The drivers of inflation are different for different claim sizes:
  - **Smaller BI claims** – typically linked to fixed costs or tariffs. Claims have faced upward pressure from inflation, eg an 8% increase in General Damages in early 2026 and a c.15% increase to the whiplash tariff from 31 May 2025.
  - **Larger BI claims** – these typically include significant elements of loss of earnings and cost of care, which are more closely linked to wage inflation. The increase in the Personal Injury Discount Rate (PIDR) in England and Wales has helped reduce the severity of larger BI claims, but wage inflation, care costs and settlement duration remain key risks.

Motor – theft

Theft comprises both theft of vehicles and theft from vehicles, with the former representing the vast majority of the claims costs for this head of damage. With frequency having reduced in 2025, we consider that the scope for further reductions is limited.

Burning cost



Source: ABI motor premium and claims tracker – 2026 Q2

Key highlights

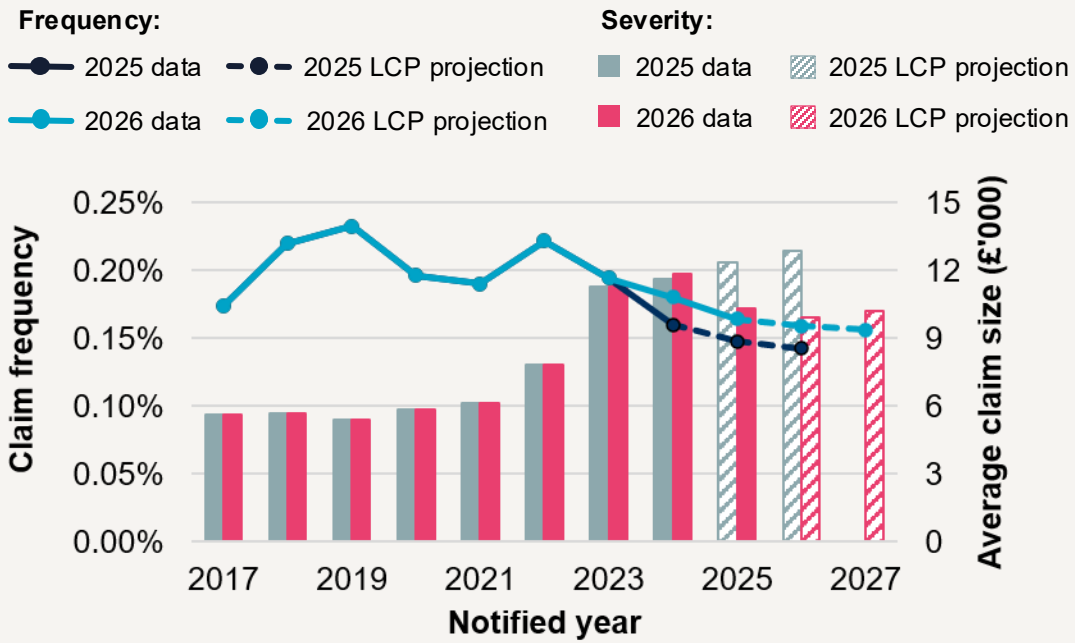
Very high burning cost inflation in 2022 and 2023 due to increases in frequency and the increasing cost of replacing stolen vehicles and parts.

Burning cost has **fallen sharply since its 2023 peak,** driven by reductions in claim frequency.

Based on experience in H1, we expect burning costs to continue their downward trend through 2026 before **stabilising in 2027** as frequency reductions level off.

Motor – theft

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2025	-9%	-13%	-20%
2026	-3%	-4%	-7%
2027	-2%	+3%	+2%

Source: ABI motor premium and claims tracker – 2026 Q2

Frequency

- **Post-pandemic, theft rates increased**, driven by increased car usage and general increases in crime rates.
- **Increasingly sophisticated methods of vehicle theft**, including keyless entry exploitation, increased theft rates on high-value vehicles.
- Vehicle theft frequency **fell in 2024 and 2025** as manufacturers responded with **increased security measures and software updates.**
- We are projecting theft frequency to **continue decreasing into 2027**, although less sharply than in 2024 and 2025.

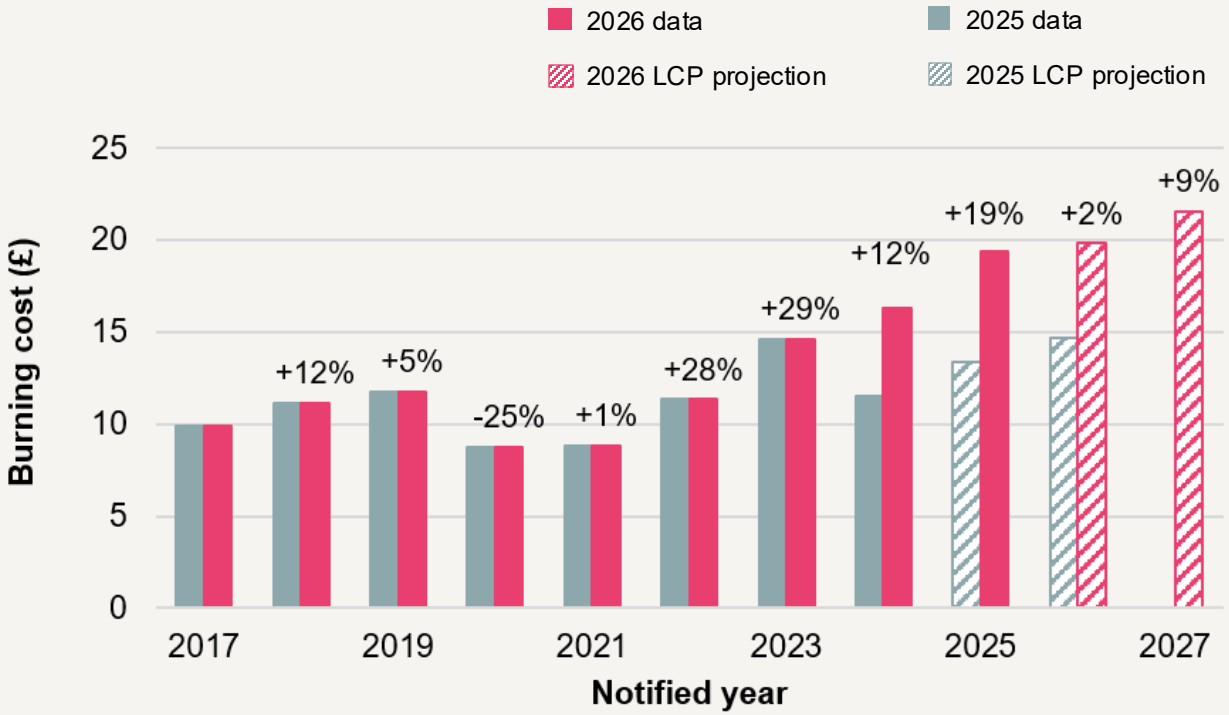
Severity

- The increased claim severity in 2022 and 2023 was driven by factors including the **targeting of high-value vehicles, expensive second-hand car markets and high inflation in the cost of parts and repairs**.
- Severity fell in 2025, although this may be partly due to data revisions. We expect severity to stabilise in 2026 with a modest increase into 2027.
- Severity remains exposed to the **mix of vehicles stolen**, recovery rates and the value of parts targeted for resale, so the balance can change quickly if high-value vehicle theft increases.

Motor – replacement vehicle

Replacement vehicle (RV) claims exhibit similar trends to AD and TPD but represent a much smaller portion of total claims costs. RV costs depend on the frequency of accidents, the cost of providing hire vehicles and repair times. The ABI data revisions have had a particularly large effect on RV, with reported 2024 frequency now significantly higher than previously shown.

Burning cost



Key highlights

High burning cost inflation in 2022 and 2023, driven by increasing claim frequency post-pandemic and **delays in repairs leading to longer hire durations.**

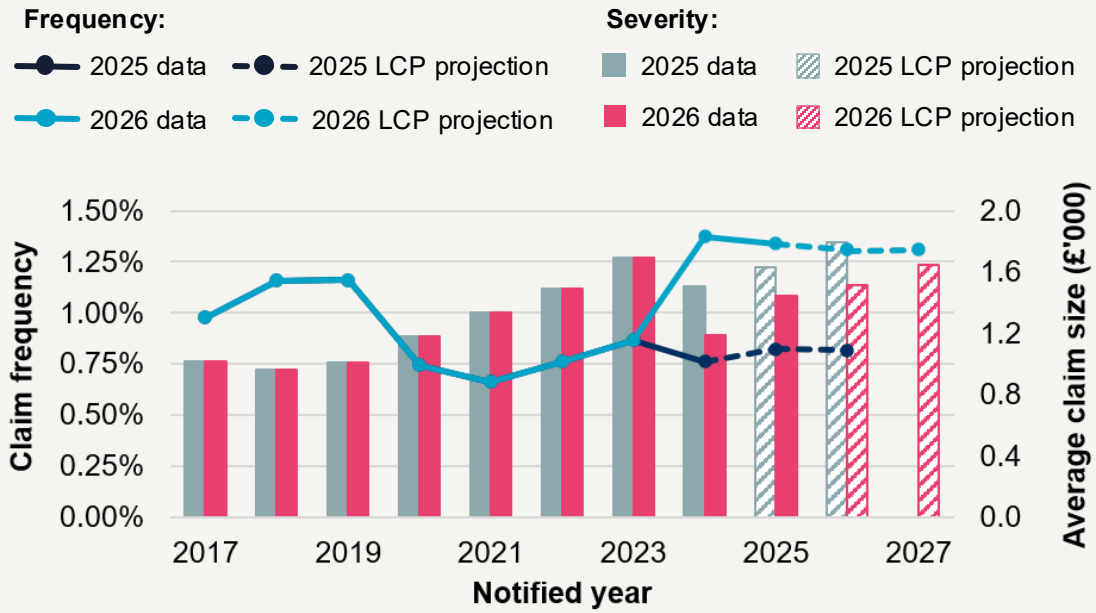
Burning cost has continued to rise in 2024 and 2025. The revised ABI data shows much higher claim frequency in 2024, while severity rose sharply in 2025. Care is needed when interpreting these movements.

We expect an **increase in burning cost in 2026** (+2%) and a **further increase** (+9%) **in 2027.**

Source: ABI motor premium and claims tracker – 2026 Q2

Motor – replacement vehicle

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2025	-3%	+22%	+19%
2026	-2%	+5%	+2%
2027	+0%	+9%	+9%

Source: ABI motor premium and claims tracker – 2026 Q2

Frequency

- Like AD and TPD, **the frequency of RV claims decreased significantly in 2020** due to the Covid-19 pandemic.
- Following the ABI data revisions, reported **frequency is significantly higher in 2024** than previously shown and **above pre-pandemic levels**. Frequency has decreased slightly since.
- Frequency is expected to be **broadly flat** into 2027.

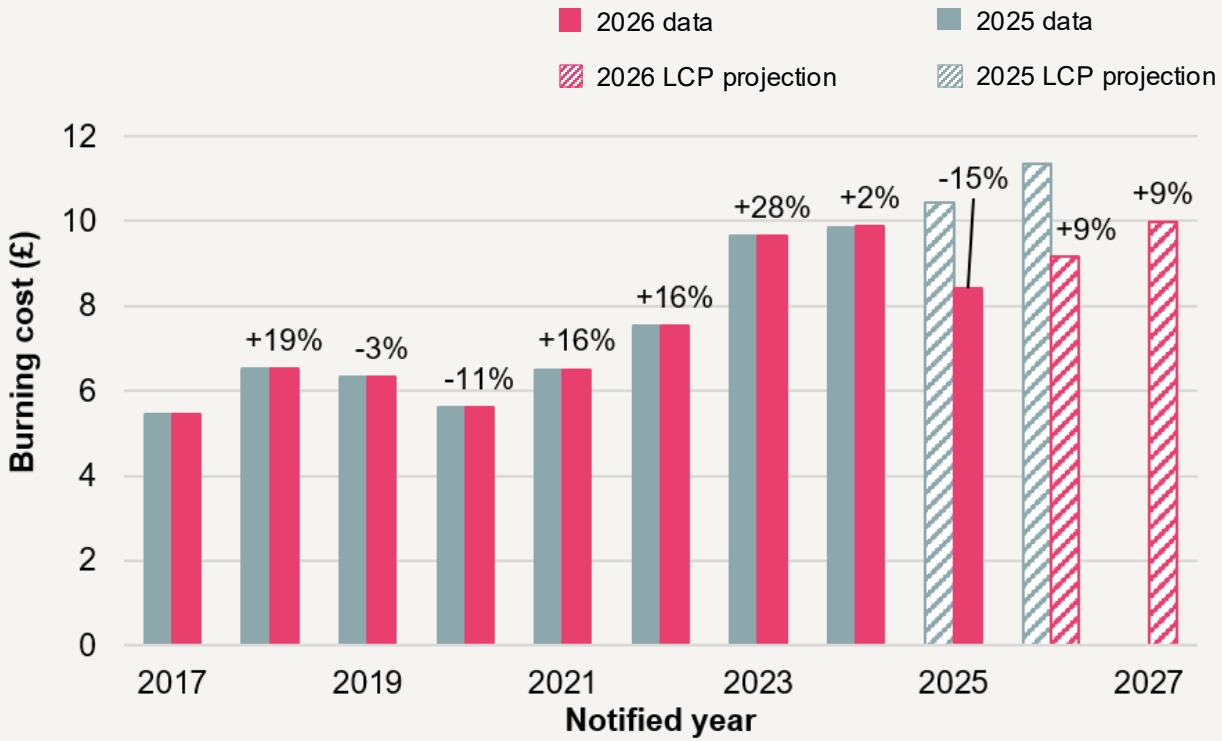
Severity

- Claim severity has been high in recent years, with costs to insurers exacerbated by **significant delays in repair times** due to supply chain disruptions and a shortage of skilled labour.
- Severity fell in 2024 but **rose sharply in 2025**. These years are likely to be distorted by the data revisions. We expect **claim severity to resume the increasing trend in 2026 and 2027.**

Motor – windscreen

Windscreen claims represent a relatively small portion of total costs, with burning costs less than £10 per vehicle year. However, repairs have become increasingly expensive in recent years, and we expect this trend to continue.

Burning cost



Source: ABI motor premium and claims tracker – 2026 Q2

Key highlights

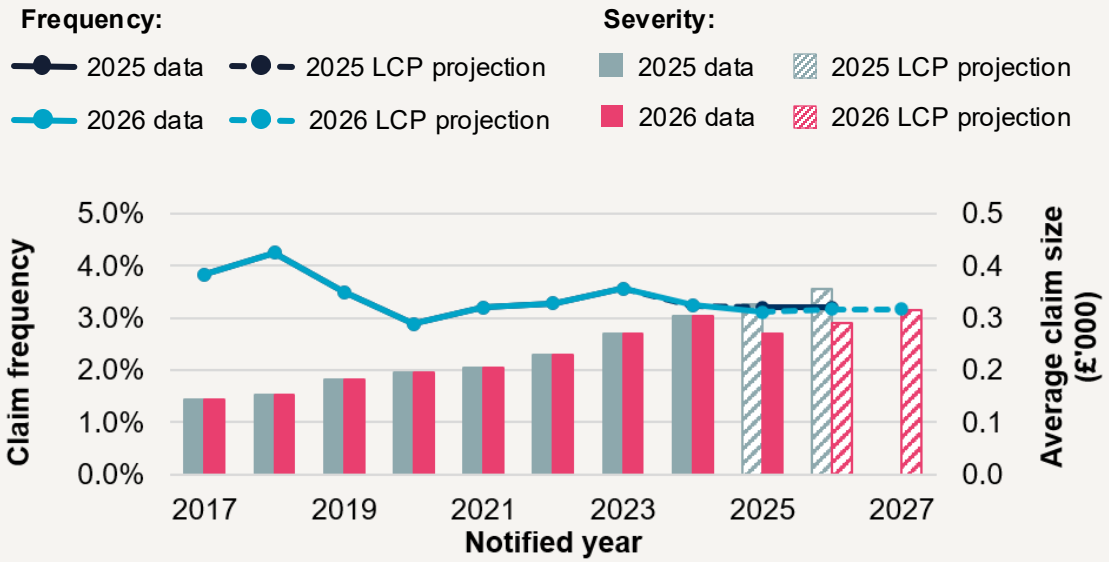
Windscreen claims are less sensitive to traffic volumes and therefore saw less of a drop in 2020 than other heads of damage.

The strong upward trend in burning cost over 2021 to 2023 was driven by high claim severity inflation, due to **increasing use of technology in windscreens**.

Burning cost fell in 2025, driven by lower severity, although the ABI data revisions are likely to have contributed. We expect **increases to resume in 2026 and 2027**.

Motor – windscreen

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2025	-4%	-11%	-15%
2026	+2%	+7%	+9%
2027	+0%	+9%	+9%

Source: ABI motor premium and claims tracker – 2026 Q2

Frequency

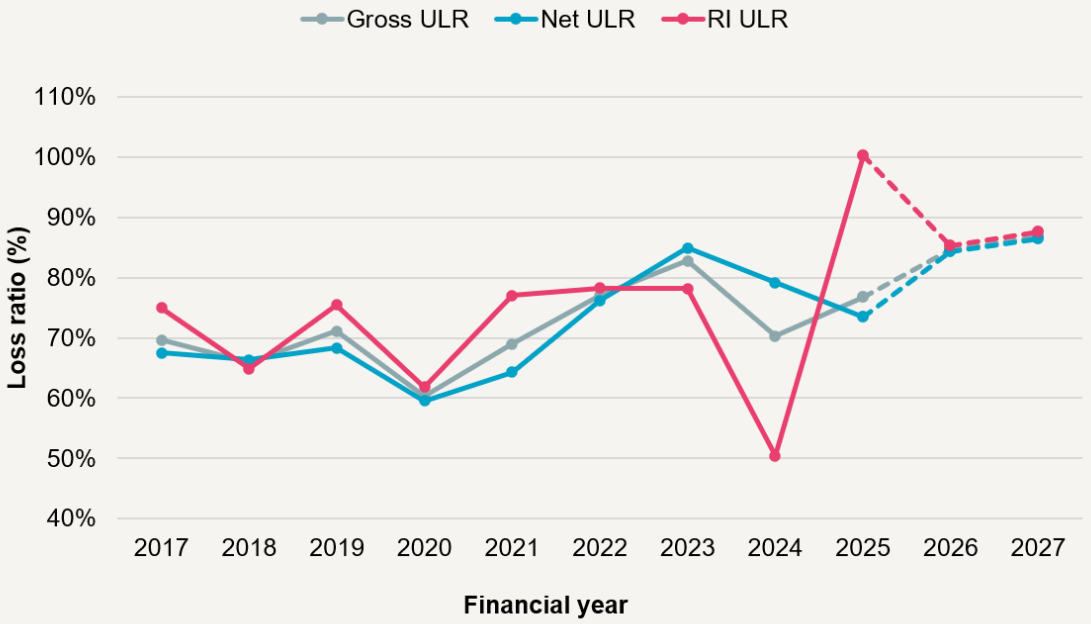
- Windscreen claims have been **much less impacted by Covid-19** than the other heads of damage.
- Claim frequency has been **relatively flat since 2021**, and we are assuming a **broadly flat trend into 2027.**

Severity

- **Claim severity has been increasing strongly**, driven by the growing use of technology in windscreens. Many vehicles now have ADAS cameras and sensors mounted on the windscreen, which need recalibrating after a replacement, making repairs significantly more expensive.
- Severity inflation has also been driven by high levels of general price inflation (affecting the cost of replacement windscreens) and wage inflation (affecting the cost of repair work).
- Following a decrease in 2025, likely to be partly due to data revisions, we are assuming that **claim severity will increase again in 2026 and 2027**. In particular, we expect that severity inflation for windscreen claims will be **6% pa higher than CPI.**

Motor – allowing for reinsurance

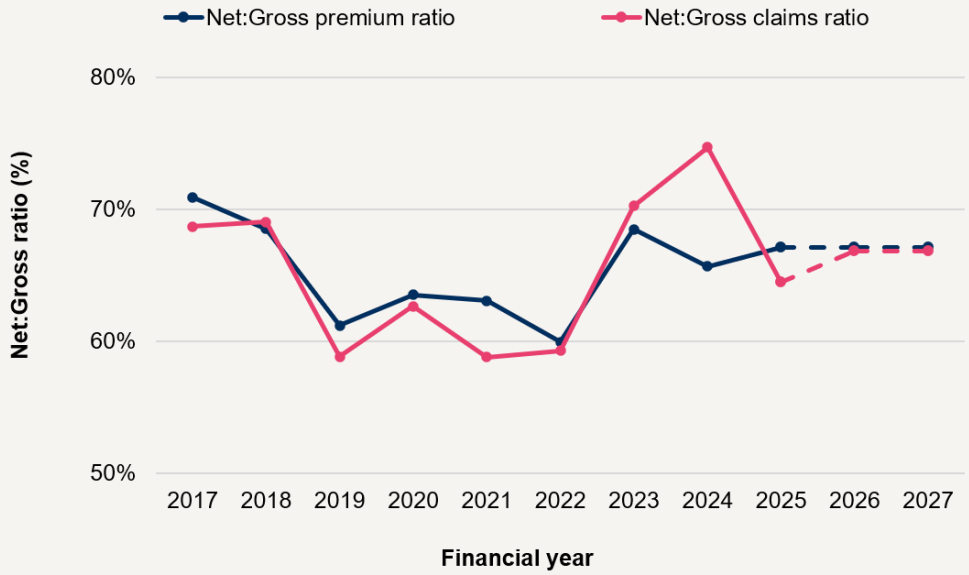
Comparison of gross, reinsurance and net loss ratios



- The reinsurer loss ratio was unusually low in 2024, likely helped by the increase in the PIDR to +0.5%, before rising sharply in 2025. Drivers include differences between gross premium levels and reinsurance market pricing, and year-on-year variation in large claims experience. These ratios will also be affected by prior-year reserve movements and the extent to which these differ on a gross and net basis.
- We expect **gross, net and reinsurer loss ratios to be broadly comparable** in 2026 and 2027.

Source: 2025 & prior loss and expense ratios based on motor direct business reported in SFCRs

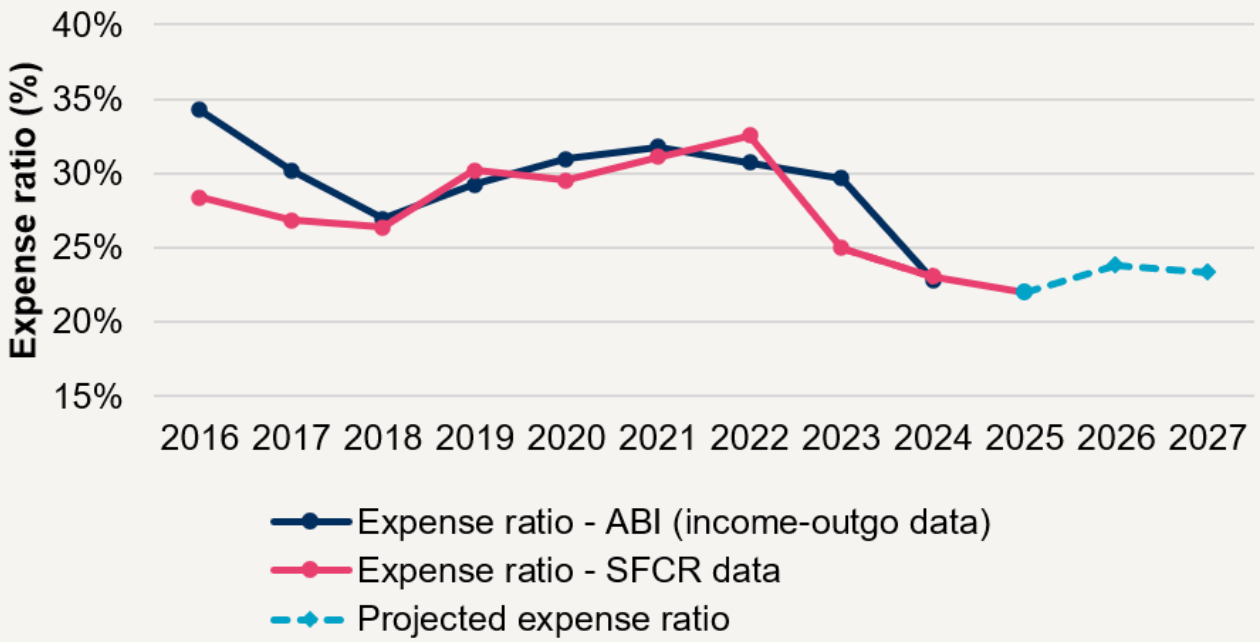
Net-to-gross premium and claims ratios



- The net-to-gross premium ratio rose between 2022 and 2023, as inflation predominantly affected smaller damage claims rather than the large BI claims that trigger reinsurance recoveries. This drove larger increases in gross premiums than in reinsurance premiums. Ratios have since remained broadly stable, and we expect this to continue.
- The **net-to-gross claims ratio** has followed a similar pattern but is also affected by prior-year reserve movements and the extent to which these differ on a gross and net basis.

Motor – expenses

Expense ratios (net of reinsurance)



Key highlights

Insurers' **expense ratios fell from 2022 to 2025**, as premium growth outpaced increases in expense costs.

The **expense ratio is projected to rise modestly in 2026,** as expense inflation combines with lower premiums earning through, and then **reduce slightly in 2027** as our projected premium increases earn through.

AI and automation remain a focus across claims and underwriting. We expect the benefits to show through in expenses over the longer term, but for now **wage and claims-handling inflation are outweighing early savings.**

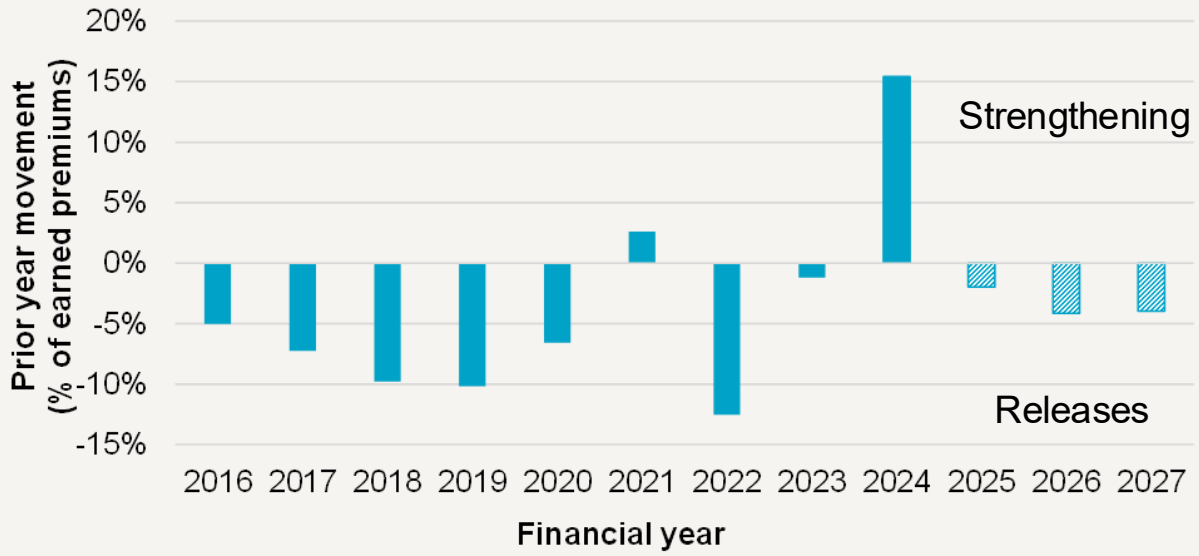
Source: based on motor direct business reported in SFCRs and ABI income-outgo data

Motor – prior-year reserve movements

Prior-year reserve movements are a significant contributor to the combined ratio. At a market level:

- **2021** – insurers generally took the opportunity to strengthen prior-year reserves due to the significant savings on the 2021 accident year, driven by Covid-19.
- **2022 and 2023** – accident year loss ratios on these years were very high due to high claims inflation but limited increases in premiums. Insurers put through significant releases in prior-year reserves to help improve reported performance in 2022. Following this, there was not the capacity to put through the same level of releases in 2023.
- **2024** – insurers significantly strengthened prior-year reserves. This may reflect inflationary pressures emerging on prior-year claims.

Prior-year reserve movements



Source: Based on ABI income-outgo data, projected by LCP

Expectations for 2025 to 2027

- **Modest releases in 2025,** as strong current-year profitability reduces the need to release prior-year reserves to support results.
- **Larger releases in 2026 and 2027,** helping to support reported results **as current-year underwriting performance becomes more challenging.**
- It can be difficult to separate genuine favourable development from reserve movements influenced by current-year profitability, so there remains a **wide range of plausible outcomes,** particularly at an individual insurer level.

Home projections

UK home insurers face mounting pressure from softer pricing, claims inflation and weather volatility, with subsidence remaining a key risk. Disciplined pricing, reserving and resilience will be important over the rest of 2026 and into 2027.

Katie Garner, LCP

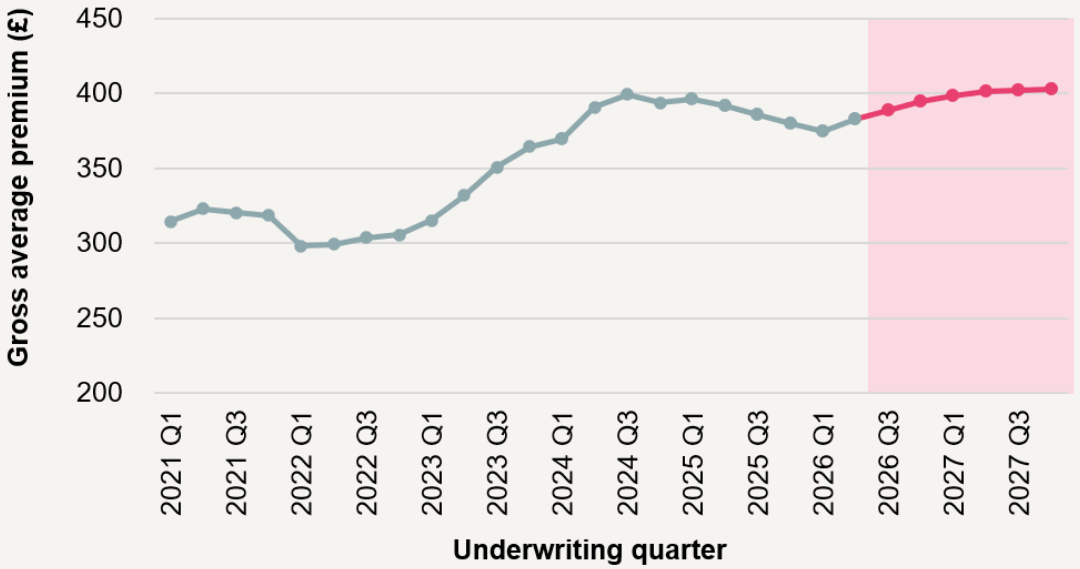


Market performance – home

Gross average written premiums

Premiums rose through 2023 and 2024, then fell for four consecutive quarters as the market softened. 2026 Q2 saw the first quarterly increase in over a year. We project average premiums to rise by around 4% over 2026 and stay broadly flat through 2027, as competition limits premium increases.

Gross average written premiums



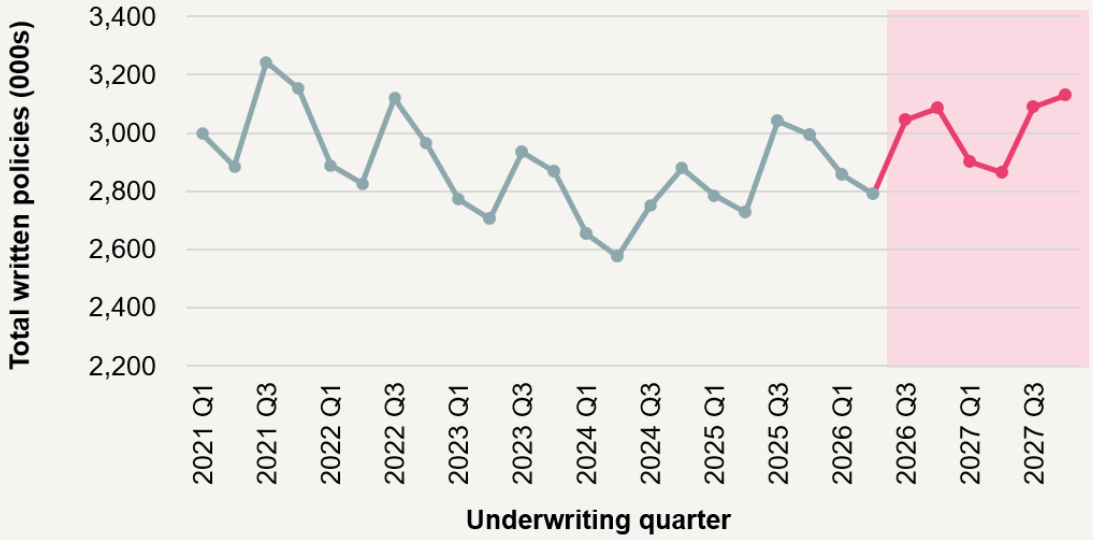
Source: ABI premiums tracker – 2026 Q2

Total written policies

Policy volumes fell from mid-2022, partly because of cost-of-living pressures, but have recovered since 2024.

We expect gradual growth over 2026 and 2027, supported by improving affordability and insurers competing for business.

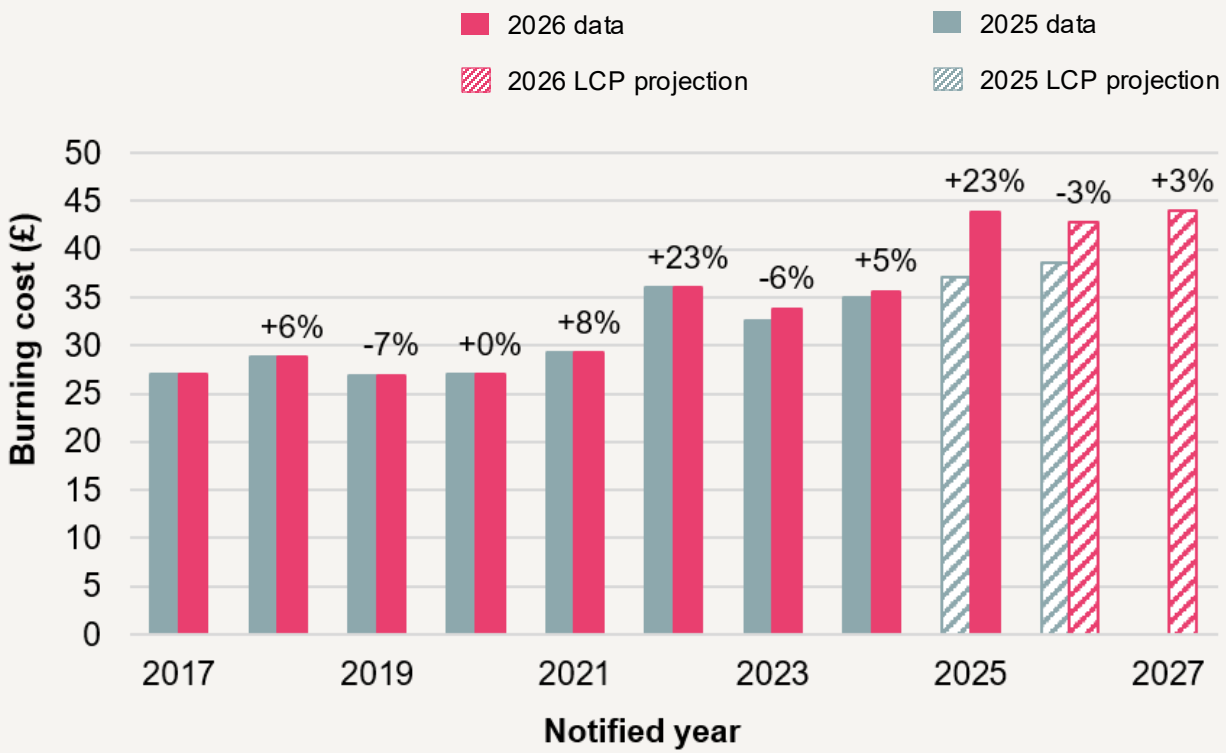
Total written policies



Home – fire

Fire claims costs rose sharply in 2025. This was driven by a rise in the number of claims, as hot, dry weather increased the risk of fires. Building material and labour costs continue to push severity upwards, but more slowly than in recent years.

Burning cost



Key highlights

Burning cost is expected to **level off in 2026 and 2027**, but it will remain **well above projections in last year's report** after the jump in claims in 2025.

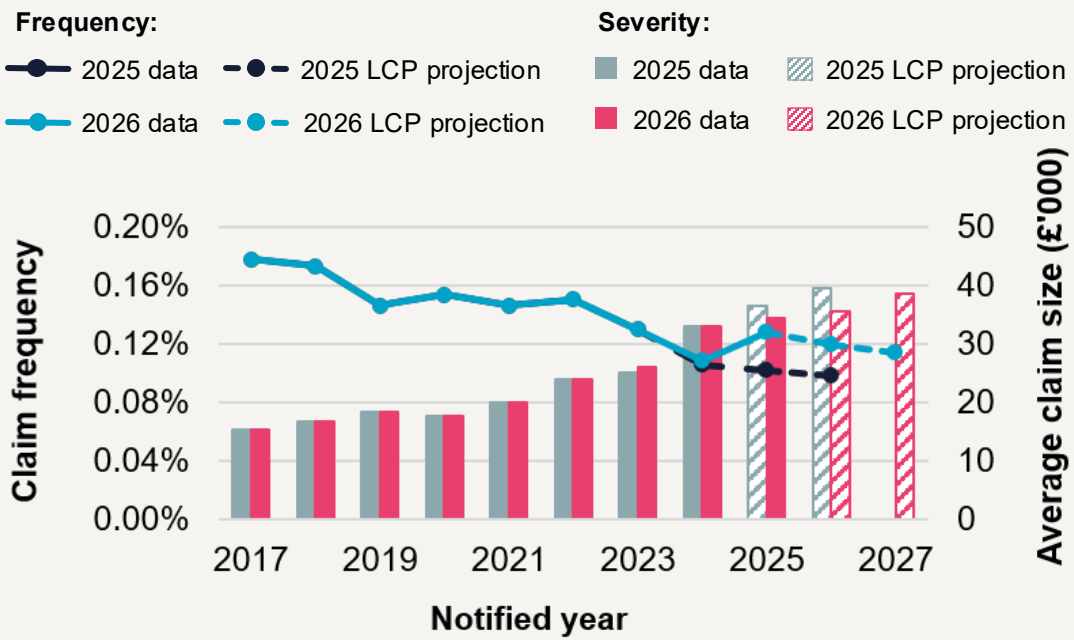
Severity continues to rise steadily, driven by building material and labour costs that are still increasing faster than CPI. We expect this upward trend to continue through 2026 and 2027.

Hot, dry weather drove a spike in frequency in 2025. 2026 has seen similar weather conditions and we expect elevated fire claims frequency in 2026 Q3 compared to longer-term trends.

Source: ABI home premium and claims tracker – 2026 Q2

Home – fire

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2025	+18%	+4%	+23%
2026	-6%	+4%	-3%
2027	-5%	+8%	+3%

Source: ABI home premium and claims tracker – 2026 Q2

Frequency

- Fire frequency had been **falling steadily since 2017**, helped by tighter fire safety regulations, safer household technology and fewer people smoking indoors.
- There were temporary increases during the Covid-19 lockdowns, when people spent more time at home, and in the dry summers of 2020 and 2022.
- **2025 was the biggest break from this trend** so far, with hotter, drier weather driving a sharp rise in claim frequency.
- We expect frequency to fall in 2026 and to **return to its long-term downward path** in 2027, although hot, dry weather remains a key risk.

Severity

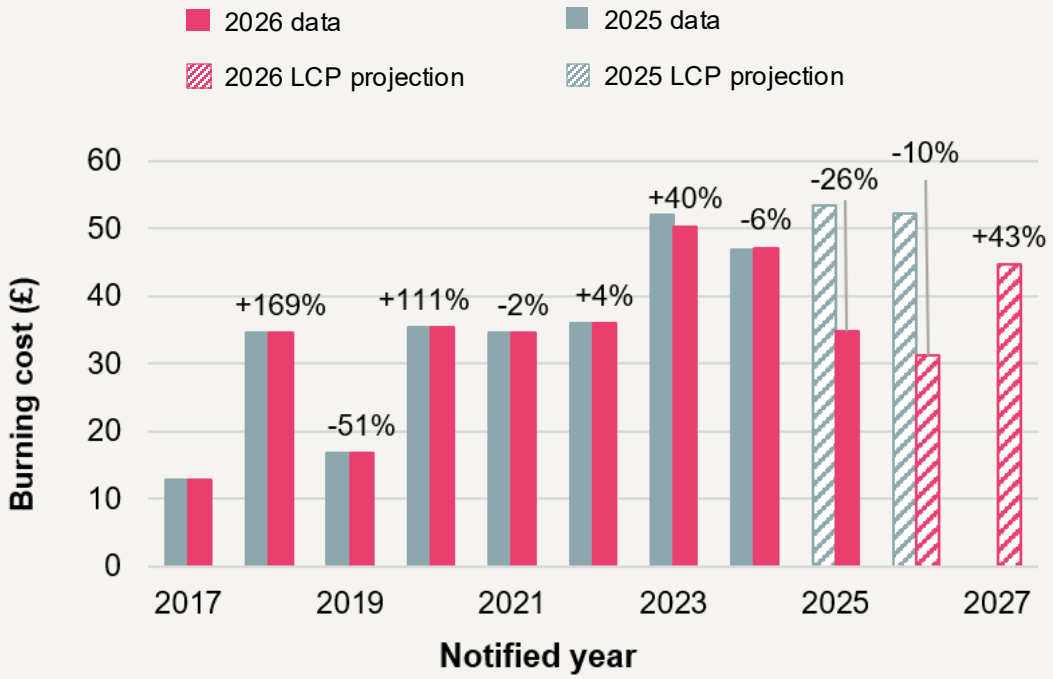
- **Claim costs have risen every year since 2017**, with large increases in 2022 and 2024.
- Inflation was more modest in 2025, but we **expect severity to keep rising** through 2026 and 2027.
- Building material and labour costs, which continue to rise faster than CPI, remain the main driver.

Home – weather

There is a wide range of claims that can result from weather events, making this a difficult peril for insurers to price and reserve for. Weather claims experience has been relatively benign over the past two years. Mild winters have kept storm and flood losses down, and weather in 2026 to date has been dominated by heat and drought, impacting subsidence claims rather than weather claims.

We have defined the weather peril as flood, storm and burst pipe claims (consistent with the ABI).

Burning cost



Key highlights

The burning cost for 2025 was **much lower than we projected last year**, as a benign winter kept claims down in 2025 and 2026. We are projecting a **return to longer-term averages in 2027**.

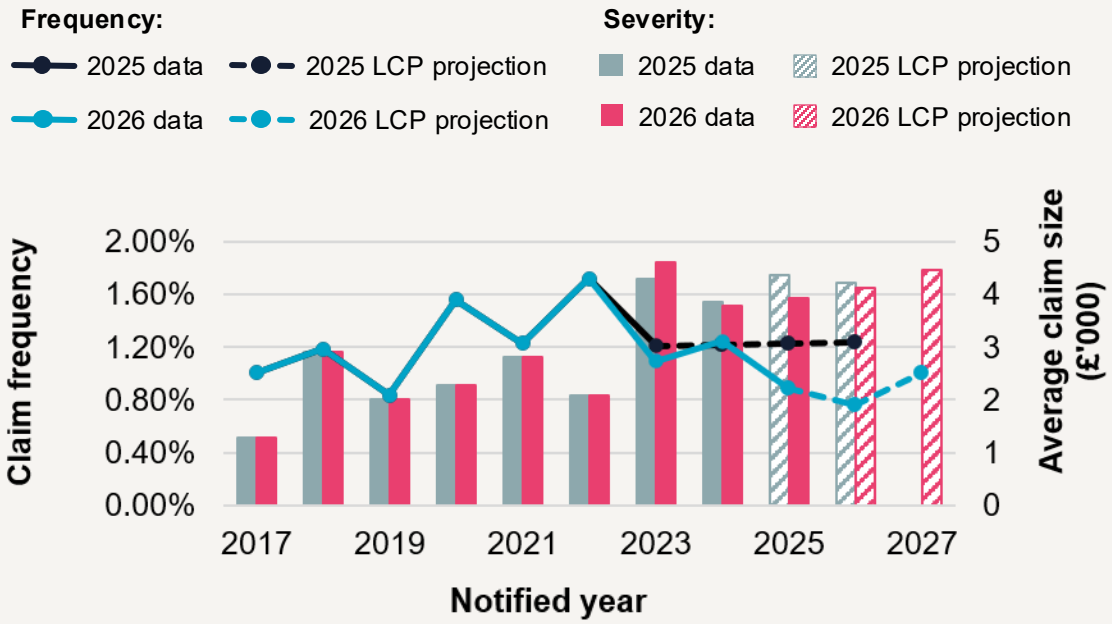
Severity continues to trend upwards, with average claim size projected to increase by 5% in 2026 and 9% in 2027.

Frequency is highly volatile and driven by winter storm events. We expect a return to longer-term averages in 2027, with the strong El Niño maybe linked to more volatile weather patterns in the UK.

Source: ABI home premium and claims tracker – 2026 Q2

Home – weather

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2025	-29%	+4%	-26%
2026	-15%	+5%	-10%
2027	+32%	+9%	+43%

Source: ABI home premium and claims tracker – 2026 Q2

Frequency

- In 2020 storms Ciara and Dennis created a peak in claims frequency. The 2022 spike is partly due to Storm Eunice, the most extreme windstorm to affect England and Wales since 2014.
- Frequency fell sharply in 2025 and early 2026, with fewer named storms than in 2024 and relatively mild winter weather.
- We are projecting a **return to longer-term averages** in 2027. The Met Office expects the current El Niño, now the strongest on record, to increase the chance of wetter, stormier conditions this autumn and early winter, with a higher risk of cold spells towards the end of 2026 and early in 2027.

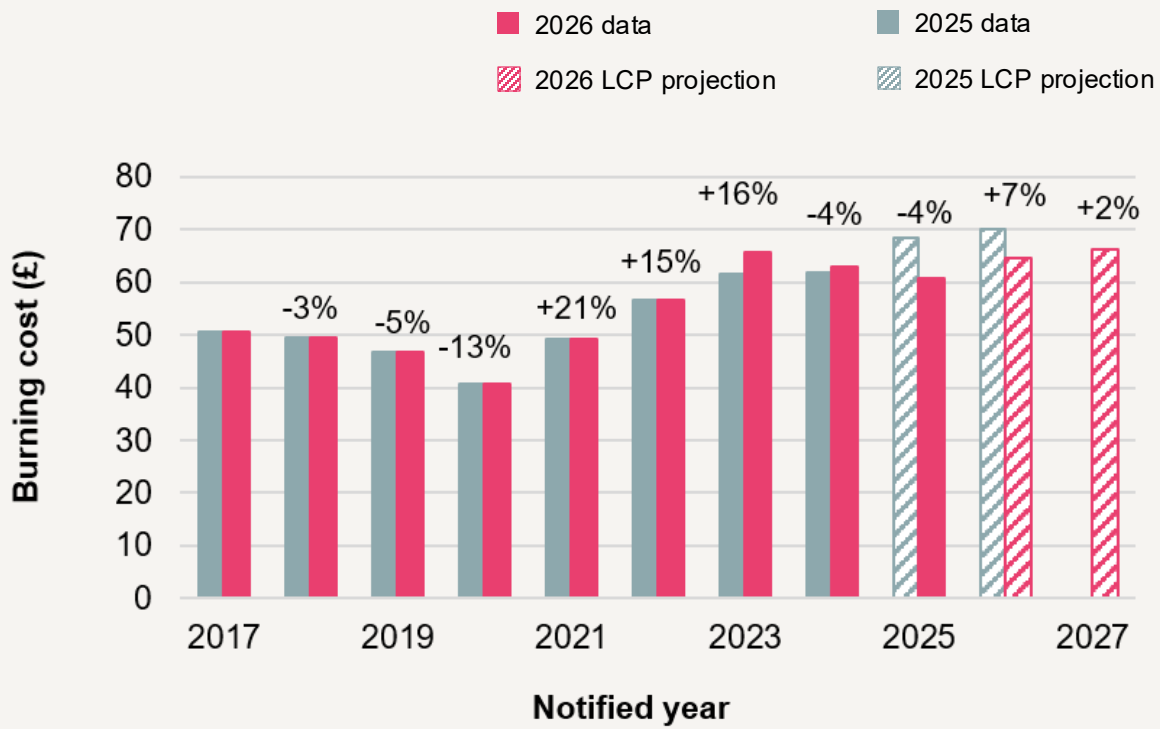
Severity

- There has been an **overall upwards trend in severity**, with 2023 particularly adverse due to multiple weather events. Severity increased modestly in 2025, and we are projecting continued increases through 2026 and 2027.
- Rising repair and building costs mean that, when weather returns to more typical levels, claims will cost more than in previous years.
- Year-on-year changes in frequency and average severity also reflect the mix of claims: storms can generate many lower-cost claims, while floods can produce fewer but more expensive claims.

Home – escape of water

Escape of water burning cost fell slightly in 2025, as lower claim frequency continued to offset severity inflation. With frequency now levelling off and severity still rising, we expect burning cost to increase again in 2026 before flattening in 2027.

Burning cost



Source: ABI home premium and claims tracker – 2026 Q2

Key highlights

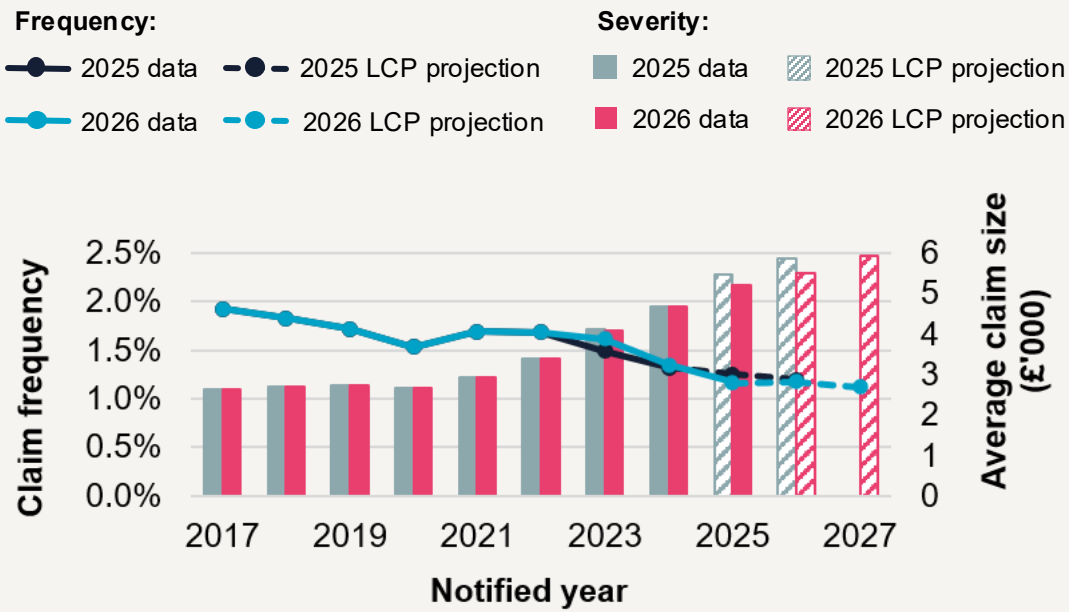
Burning cost remains well above 2020 levels after sharp increases in severity, and we expect it to stay elevated through 2027.

Severity inflation remains high, as supply chain pressures, labour shortages and rising energy costs push up the cost of repairs.

Frequency is trending downward as reduced propensity to claim and higher compulsory excesses limit smaller losses.

Home – escape of water

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2025	-13%	+11%	-4%
2026	+1%	+6%	+7%
2027	-5%	+8%	+2%

Source: ABI home premium and claims tracker – 2026 Q2

Frequency

- In 2020 there was a slight drop in frequency. This is likely to have been driven by people being in their homes more in lockdowns, and therefore able to notice potential issues faster.
- Since 2022, frequency has reduced once again, as policyholders avoid small claims and select higher compulsory excesses. **Frequency has levelled off in 2026**, with **further reductions expected in 2027**.

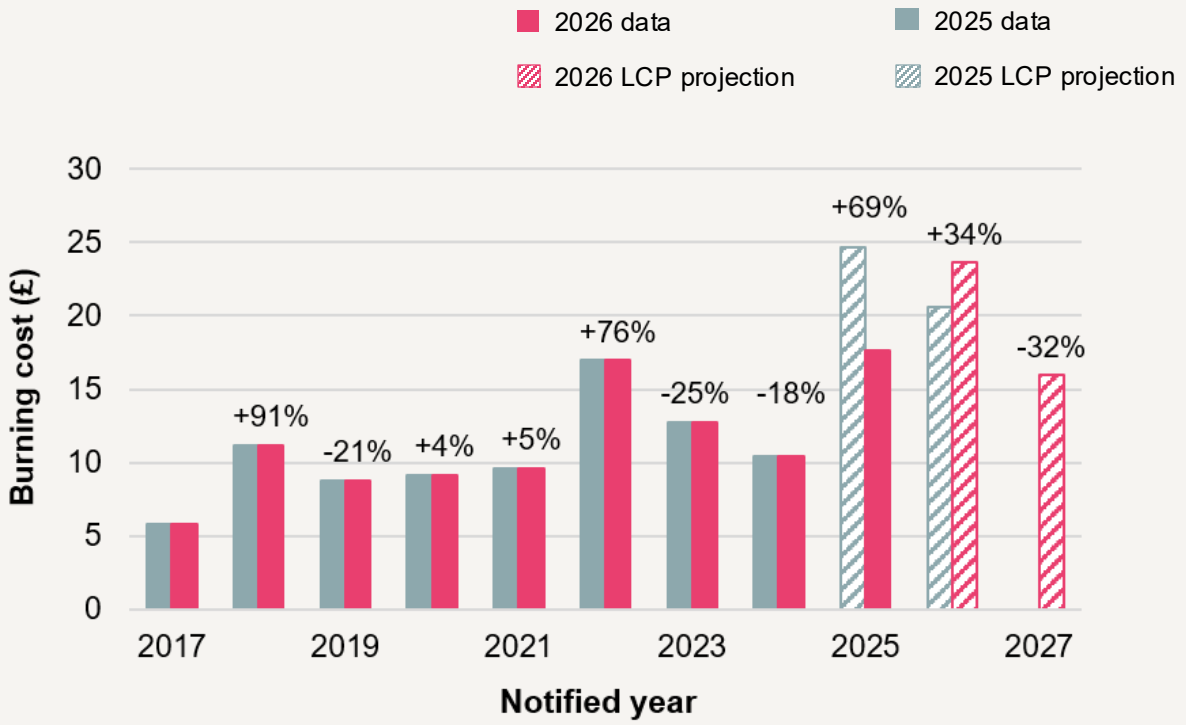
Severity

- The market has seen sharp year-on-year increases in severity since 2020, with average claim sizes now close to double their historical average.
- Severity inflation eased slightly in 2025, but we expect the **increasing trend to continue through 2026 and 2027**.
- Key drivers include labour shortages, supply chain pressures and rising energy costs, all pushing up material and repair costs.

Home – subsidence

2025 and 2026 are set to be the first back-to-back subsidence surge years since the mid-1990s. Prolonged hot, dry conditions cause clay soils to shrink, increasing stress on property foundations. Climate change may increase the frequency of conditions that drive subsidence exposure.

Burning cost



Source: ABI home premium and claims tracker – 2026 Q2

Key highlights

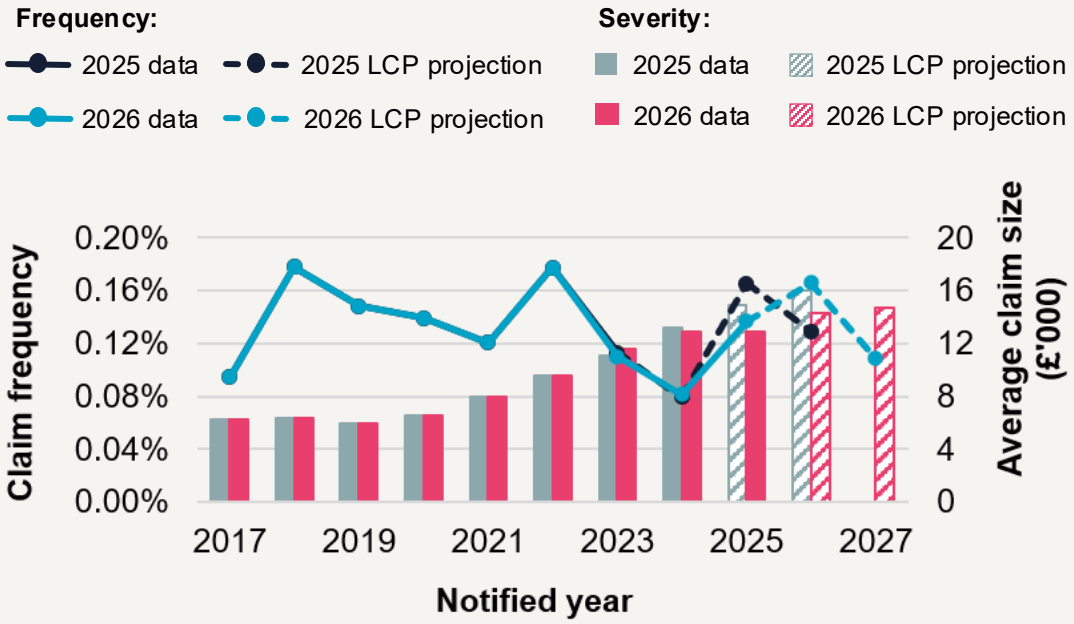
Burning cost is volatile, peaking in the surge years of 2018, 2022 and 2025, with a further spike projected in 2026. 2025 actual burning cost was lower than our projection last year, although subsidence claims take time to develop and uncertainty remains.

Severity has risen strongly over the longer term, reflecting construction inflation and more complex repairs. Average costs held steady in 2025 compared to 2024 but are expected to rise again in 2026 and 2027.

While subsidence frequency is volatile, we are **projecting 2026 to be another surge year** and **assuming a long-term average year in 2027.**

Home – subsidence

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2025	+69%	+0%	+69%
2026	+21%	+11%	+34%
2027	-34%	+3%	-32%

Source: ABI home premium and claims tracker – 2026 Q2

Frequency

- Subsidence frequency is **highly correlated with weather conditions**, with prolonged dry spells increasing the risk of claims.
- We are **projecting 2026 to be another surge year**, following repeated heatwaves and a summer soil moisture deficit close to its historic maximum.
- With limited data on climate expectations for 2027, we have projected a **long-term average frequency** for the year.

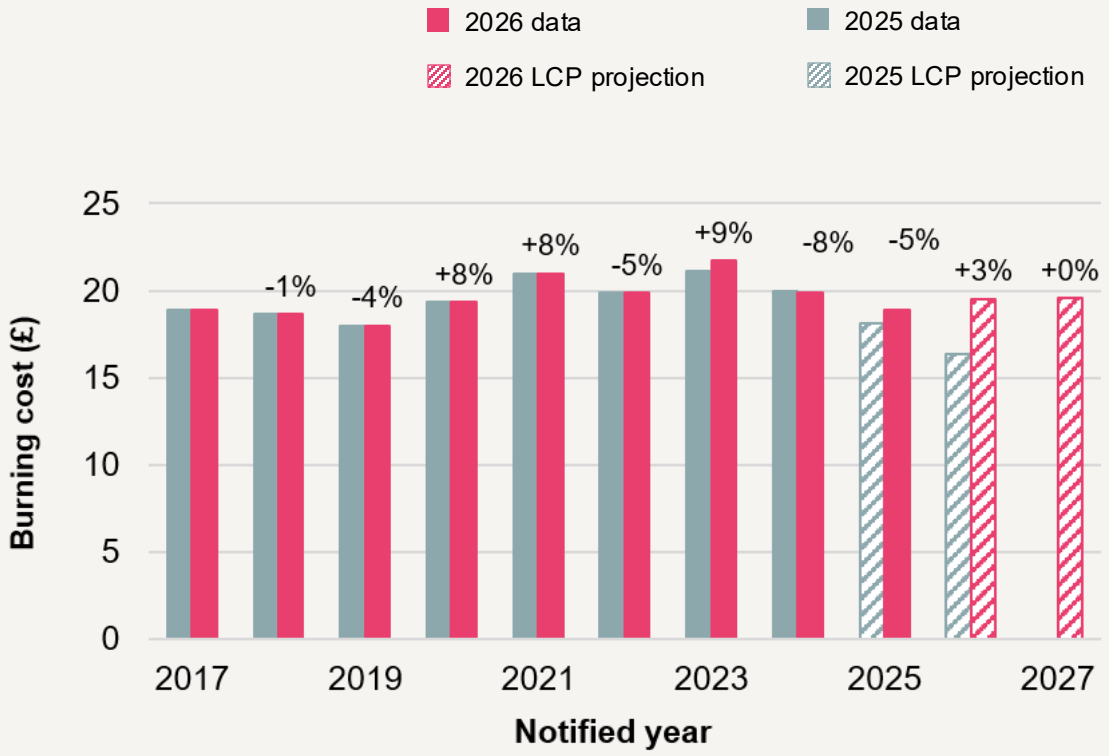
Severity

- **Subsidence severity has increased since 2019**, as rising repair costs, ageing UK housing stock and more severe weather drive up average costs.
- Severity was flat in 2025 compared to 2024, but the average claim sizes have reached a record high in 2026 to date. The **upward trend is expected to continue into 2027**, depending on weather, building material inflation and labour rates.

Home – accidental damage

For several years, lower claim frequency has offset rising claim severity. However, severity is now increasing more quickly, and the continuing reduction in frequency is no longer sufficient to reduce overall burning costs.

Burning cost



Key highlights

Overall, burning cost is expected to remain relatively stable in 2026 and 2027, as **rising severity offsets further reductions in frequency.**

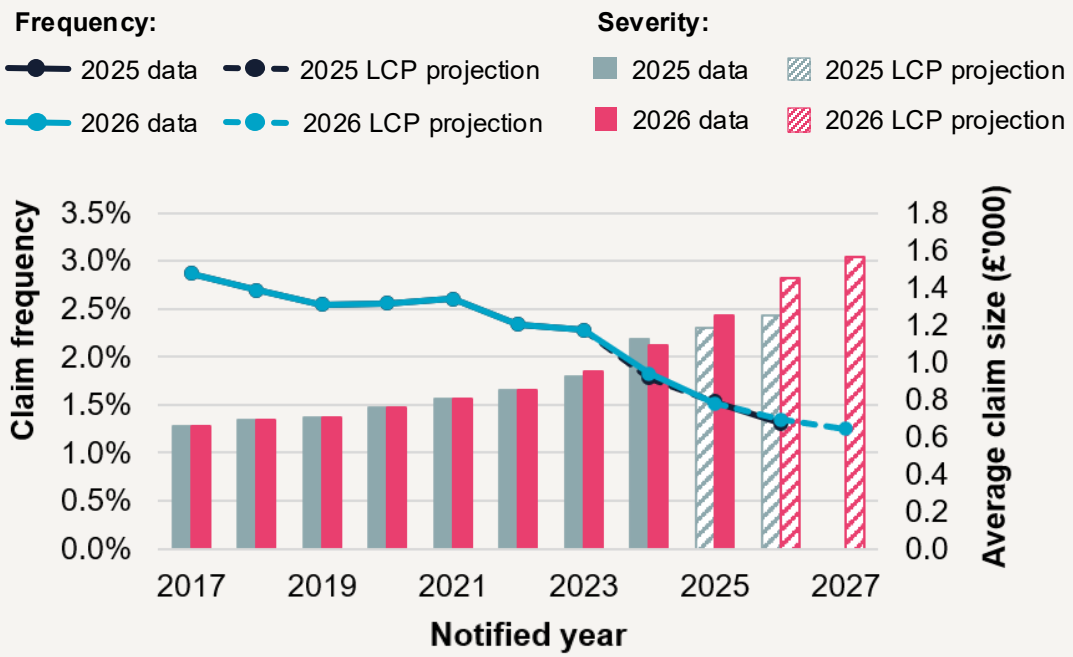
Severity inflation has increased in recent years, and we expect it to remain high in 2026 before easing slightly in 2027.

Frequency has been declining since 2021, with a step reduction in 2024. It continued to fall in 2025, and we expect further, smaller reductions in 2026 and 2027.

Source: ABI home premium and claims tracker – 2026 Q2

Home – accidental damage

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2025	-17%	+14%	-5%
2026	-11%	+16%	+3%
2027	-7%	+8%	+0%

Source: ABI home premium and claims tracker – 2026 Q2

Frequency

- Frequency has generally been trending downwards, despite a slight increase during Covid-19 lockdowns.
- Over the year to 2024, we observed a **marked step-down in frequency.**
- Frequency continued to fall in 2025, and we are **projecting a continued downward trend** into 2026 and 2027, although at a slowing pace.
- There are a number of factors which could be contributing to this trend, including a decrease in propensity to claim because of higher compulsory excesses and policyholder concerns about future premium increases.

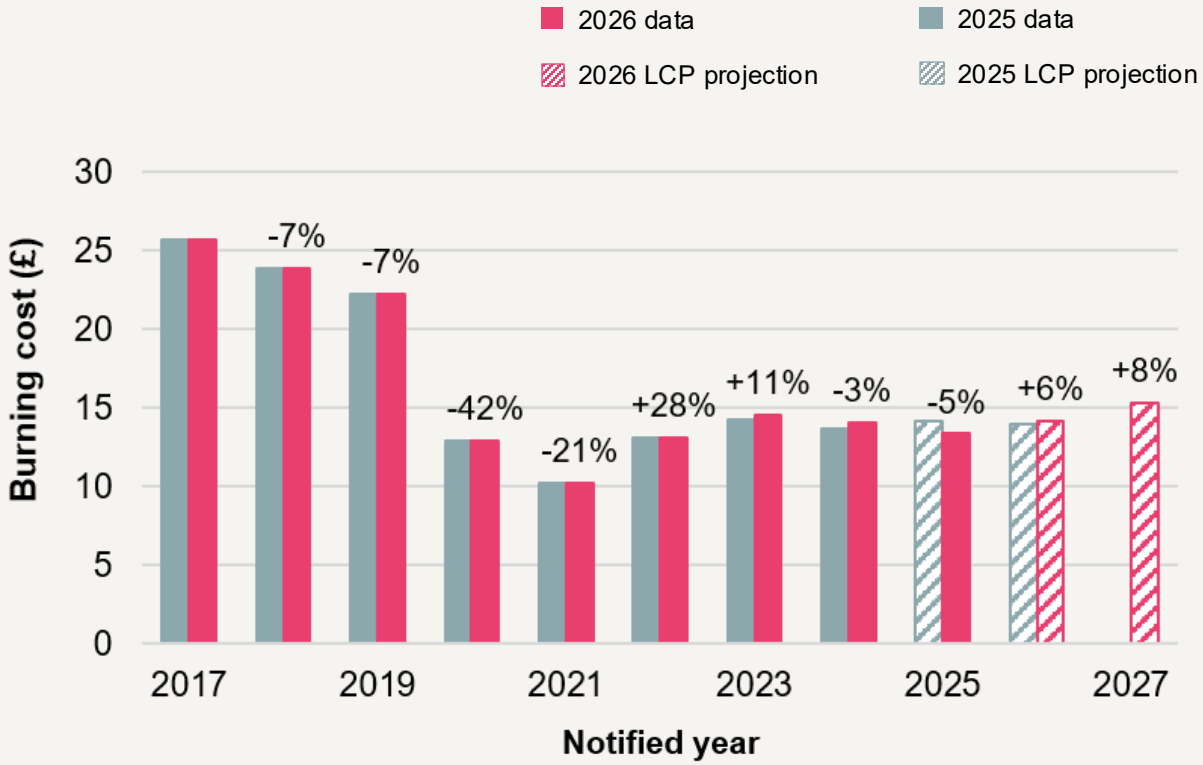
Severity

- **Severity has been increasing since 2017**, with sharper rises in recent years.
- We are **projecting the increasing severity trend to** continue in 2026 and 2027, with a particularly strong increase in 2026.
- Rising costs of replacement items and repairs, alongside a shift towards higher-value claims, are the main drivers.

Home – theft

Theft frequency has fallen steadily over the past decade and continued to decline in 2025. With fewer claims but a rising average cost, burning cost is now expected to increase.

Burning cost



Source: ABI home premium and claims tracker – 2026 Q2

Key highlights

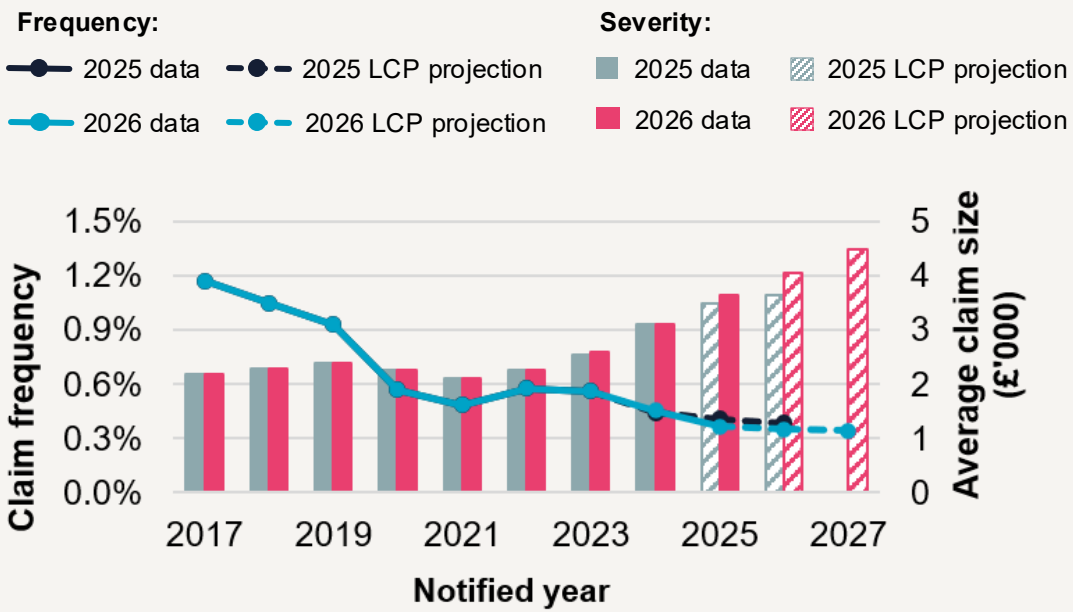
Overall, we expect **burning cost to increase** in 2026 and 2027, driven by rising severity**.**

There has been an **increasing trend in severity** since 2021, which we are projecting to continue into 2026 and 2027.

Frequency fell again in 2025, and we expect the **downward trend to stabilise** as frequency reaches historically low levels.

Home – theft

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2025	-19%	+17%	-5%
2026	-5%	+11%	+6%
2027	-2%	+10%	+8%

Source: ABI home premium and claims tracker – 2026 Q2

Frequency

- Theft frequency has been on a **long-term downward trend** and fell again in 2025. ONS data shows burglary rates continuing to fall.
- We project frequency to **continue decreasing before beginning to stabilise** in 2026 and 2027.

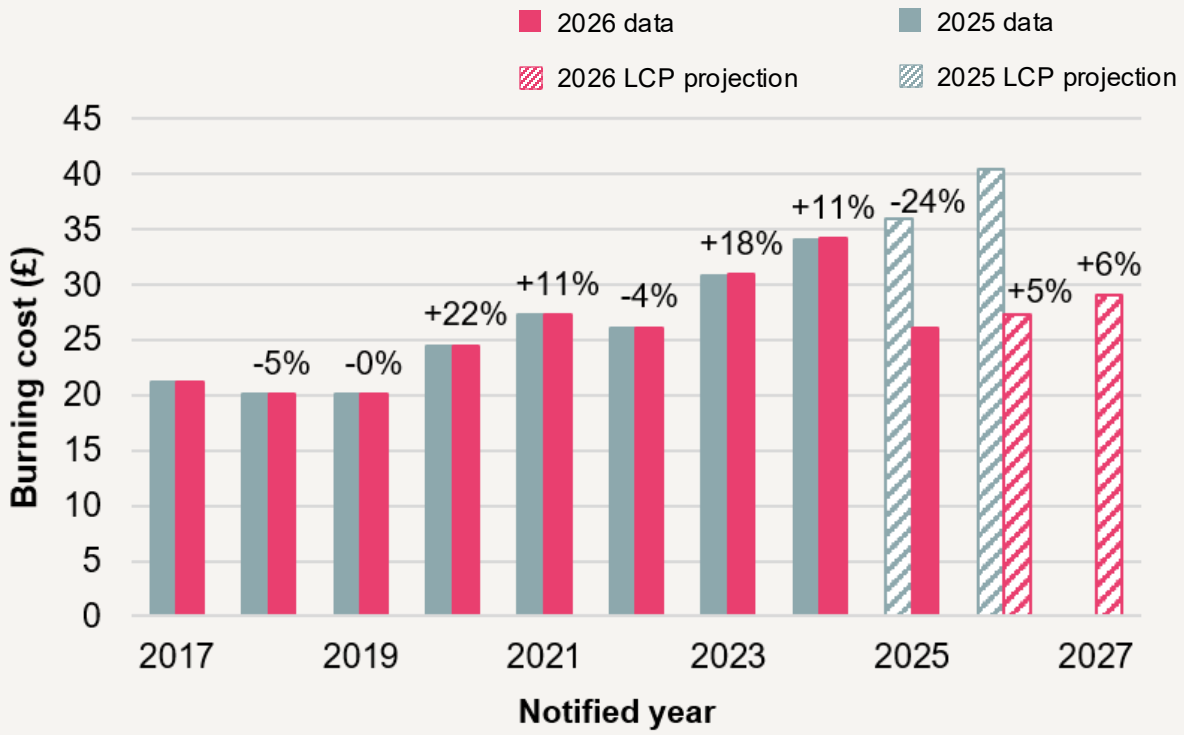
Severity

- Severity has been **trending upwards since 2021**, with a sharp increase in 2025. We expect this **increasing trend to continue** in 2026 and 2027.
- With frequency reductions slowing, falling **frequency is no longer offsetting rising severity**, and burning cost is projected to increase.

Home – other

This peril includes all other claims that could be made on a home insurance policy, for example liability, escape of oil, weight of snow and freezer contents. With such a mix of claim types, experience can be volatile from year to year. **2025 and 2026 data is affected by a change in how the ABI defines and reports "other" claims, so care is needed when interpreting year-on-year movements.**

Burning cost



Source: ABI home premium and claims tracker – 2026 Q2

Key highlights

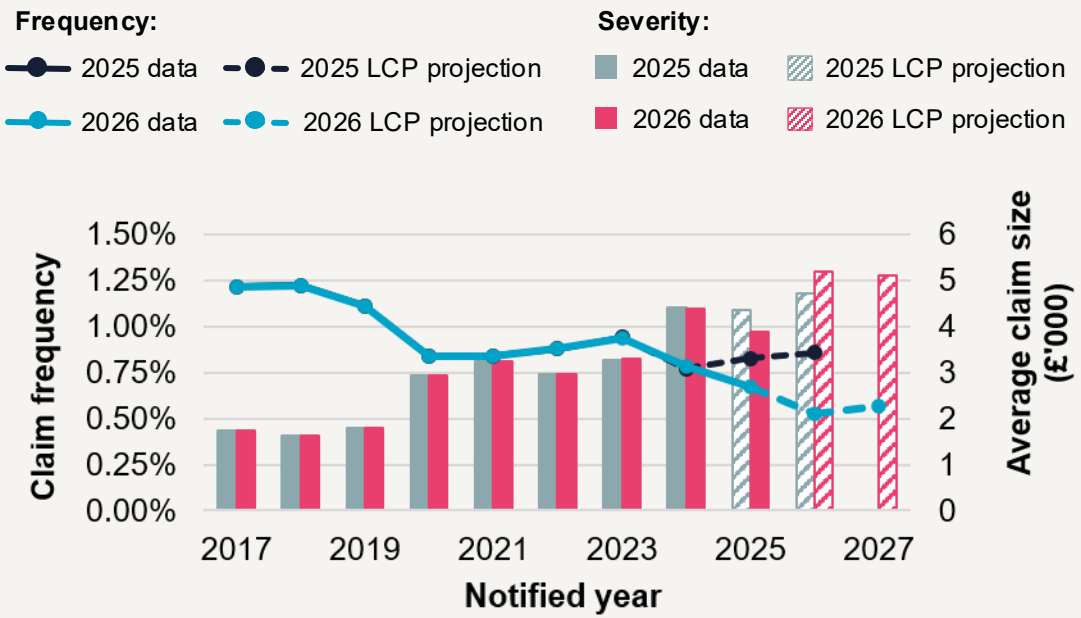
Burning cost has generally been increasing since 2020, driven by rising severity. 2025 came in **well below our projection last year**, but we expect burning cost to **resume its upward trend** in 2026 and 2027.

Severity fell in 2025 after several years of increases, but experience so far in 2026 points to a **sharp rebound.** We expect severity to ease slightly in 2027.

Frequency is volatile. It has fallen in 2025 and 2026 to date, but we expect this decline to reverse in 2027.

Home – other

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2025	-14%	-11%	-24%
2026	-21%	+33%	+5%
2027	+8%	-2%	+6%

Source: ABI home premium and claims tracker – 2026 Q2

Frequency

- The market saw a **drop in frequency during 2024 and 2025** after a period of increasing frequency in prior years. We have revised our projections in light of experience in 2025 and the first half of 2026.
- We have projected a further decrease in frequency for 2026 but expect the decline to reverse in 2027.

Severity

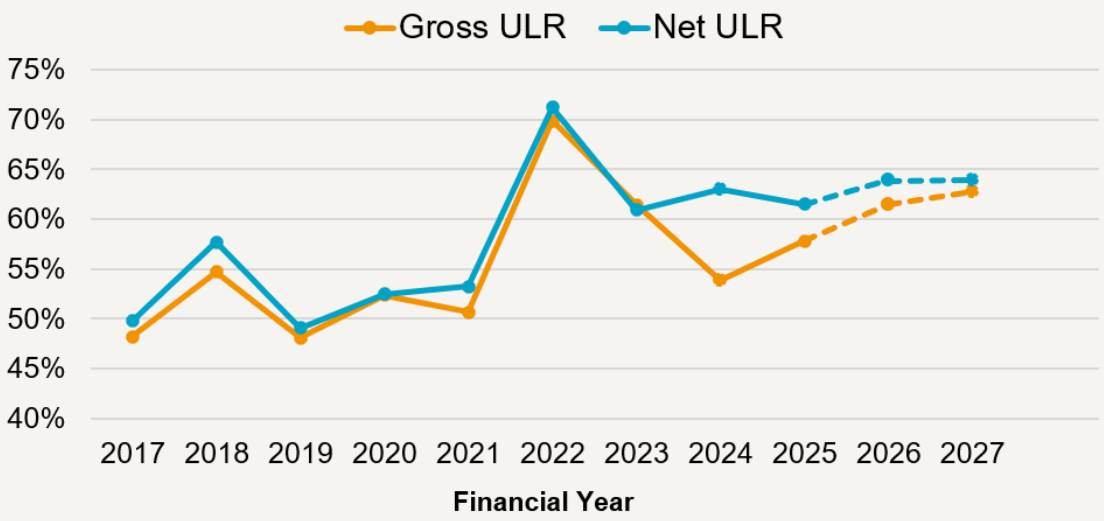
- Severity has **trended upwards since 2018**, with notable step-ups in 2020 and 2024, before falling in 2025.
- Experience in 2026 so far indicates a **large increase in severity** compared to 2025. We are projecting a slight **reduction in severity in 2027** compared to 2026 based on longer-term trends.

Note: 2025 and 2026 data is affected by a change in how the ABI defines and reports "other" claims, so care is needed when interpreting year-on-year movements.

Home – other factors affecting the combined ratio

Netting down for reinsurance

Net and gross loss ratios

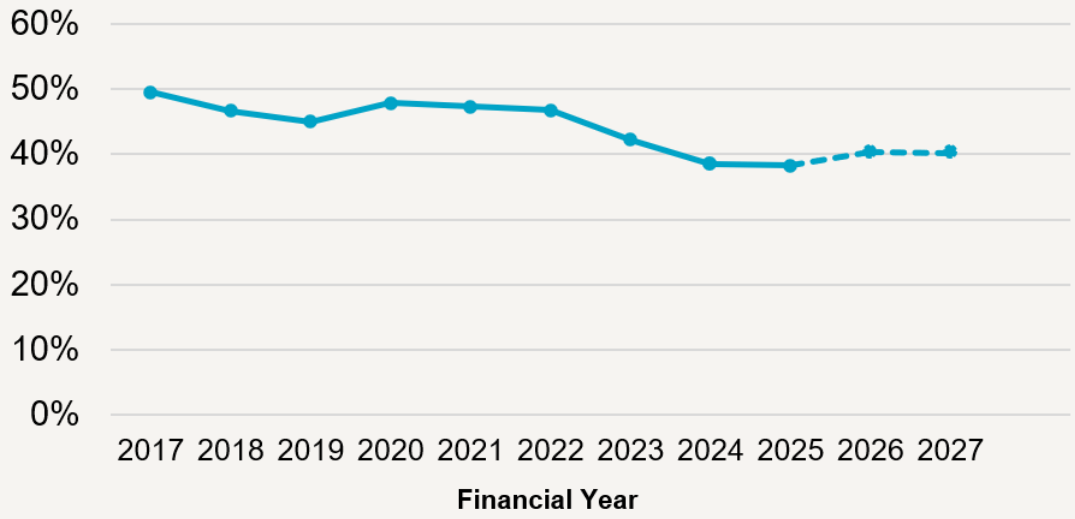


- We expect **gross and net loss ratios to rise** in 2026 and 2027, as higher claims severity coincides with softer market conditions.
- Gross and net loss ratios have typically moved together. The **gap that opened in 2024** may reflect stronger reinsurer profitability following the hard market, and we have projected the two ratios to **converge** over 2026 and 2027.

Source: ABI data up to 2024, SFCR data for 2025, projected by LCP

Expenses

Expense ratio (net of reinsurance)

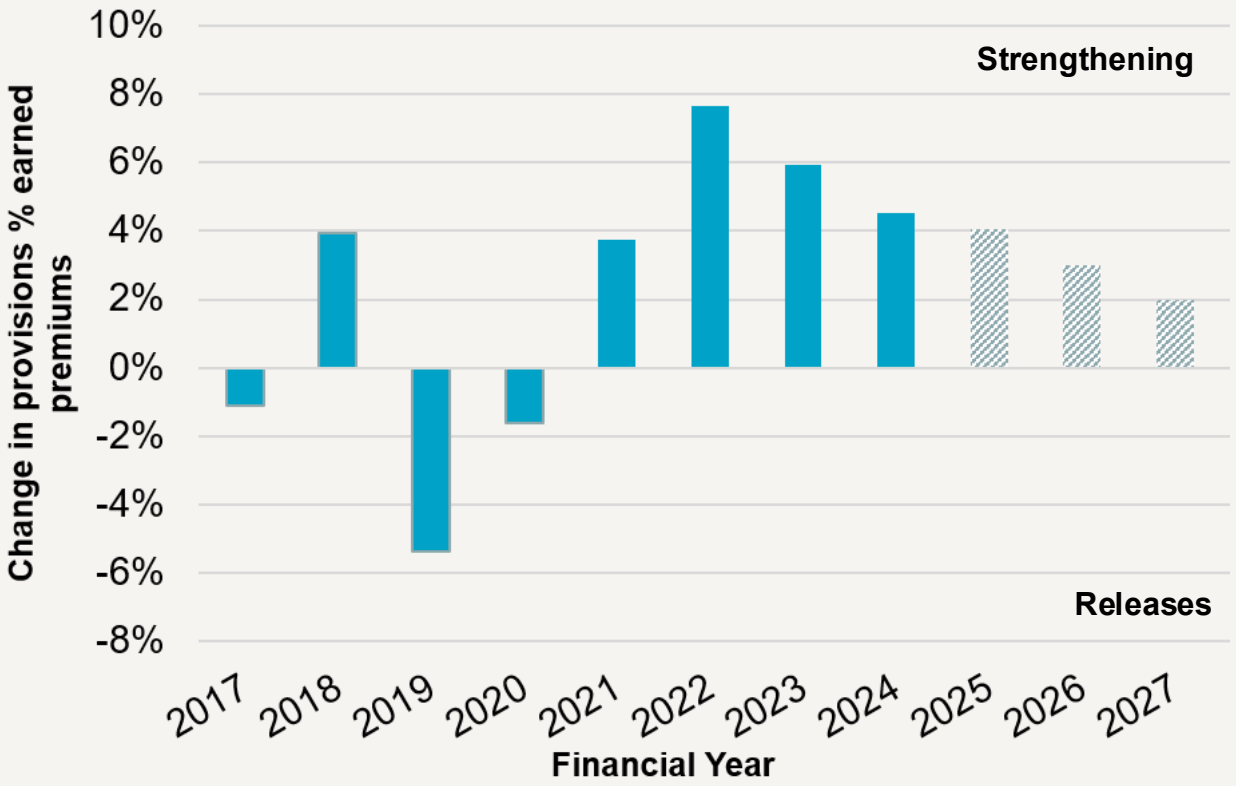


- We expect the **expense ratio to worsen slightly in 2026**, as lower premiums from the 2025 softer market conditions earn through and expenses continue to rise with inflation.
- We have projected the ratio to **remain at this higher level in 2027**, with modest rate increases broadly keeping pace with expense inflation.

Home – prior-year reserve movements

Prior-year reserve deteriorations have added significantly to home combined ratios in recent years. The high inflation of 2021 to 2023 led to repeated strengthening of prior-year claims.

Prior-year reserve movements



Expectations for 2025 to 2027

We expect **reserve deteriorations to continue** from 2025 to 2027, but to reduce steadily. This is due to:

- **High severity across several perils**, with claims inflation running ahead of price and construction indices.
- **Continued development on 2025 subsidence claims**, which will take time to settle, particularly with a second surge year in 2026.
- The effects of **past inflation gradually working through**, which should ease the pressure over time.

Source: ABI data up to 2024, projected by LCP

Pet market update

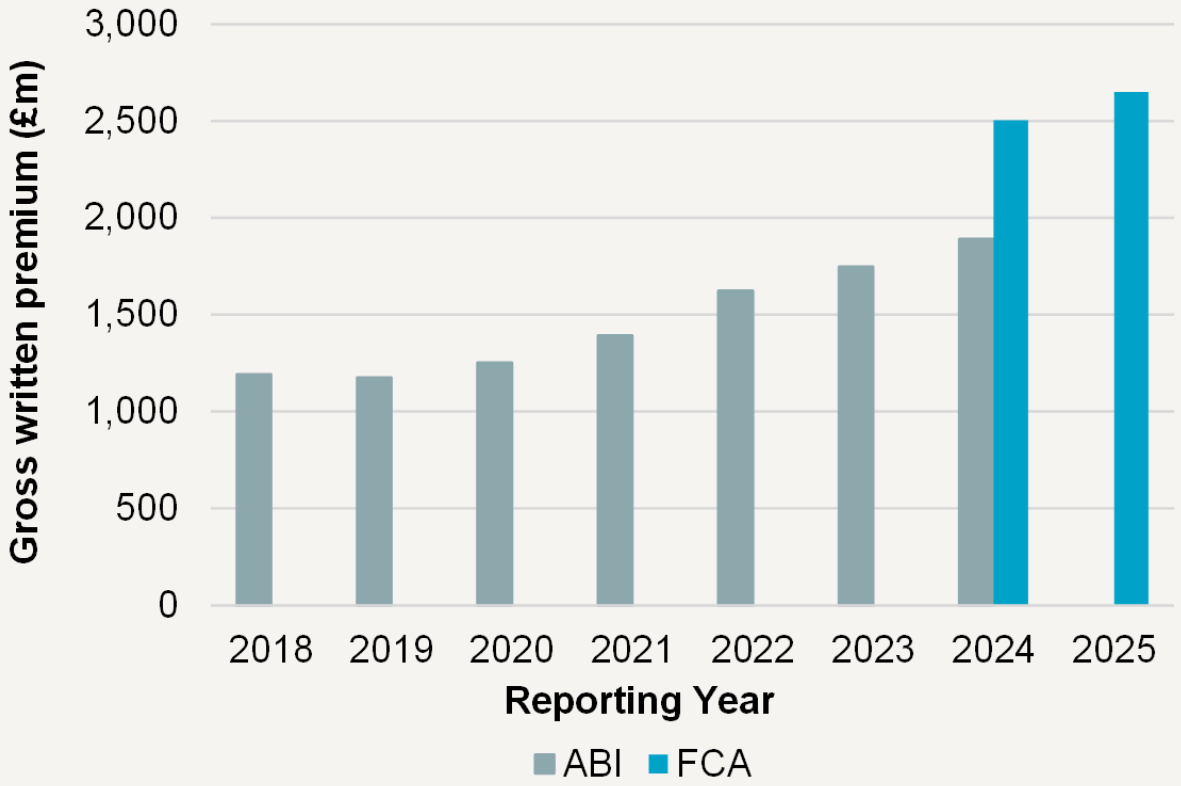
UK pet insurers face continued inflationary pressure and elevated claim frequency given the exceptionally hot and dry summers over 2025 and 2026. We expect profitability to deteriorate slightly in 2026 before improving in 2027, on the assumption of a more typical summer period.

Edward Gaughan, LCP



Pet – market performance

Premium volume



Source: ABI market stats, year-end 2024, FCA general insurance value measures, year-end 2025

Key highlights

Premiums continue to grow, rising by 6% between 2024 and 2025 to around £2.6bn. We expect the market to continue growing into 2026 and 2027.

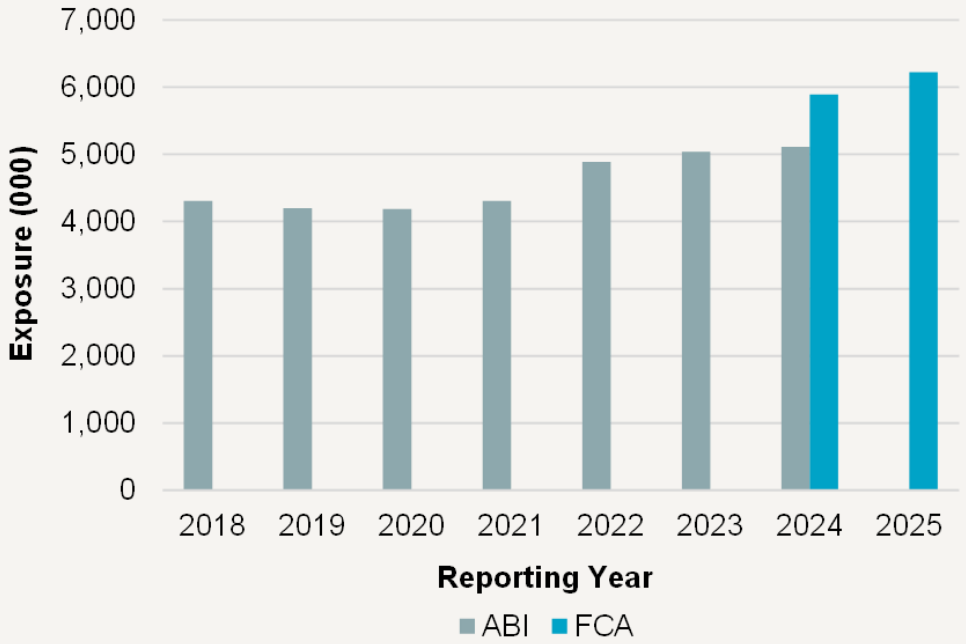
Growth in 2025 was driven by **an increase in exposure** rather than by higher average premiums (see next slide for details).

Note: The latest version of the ABI data we have available for our analysis goes up to 2024. For later years we have used data from the FCA. For 2024, we show the data from both the ABI and FCA datasets for comparison and continuity purposes.

Pet – drivers of growth

Exposure

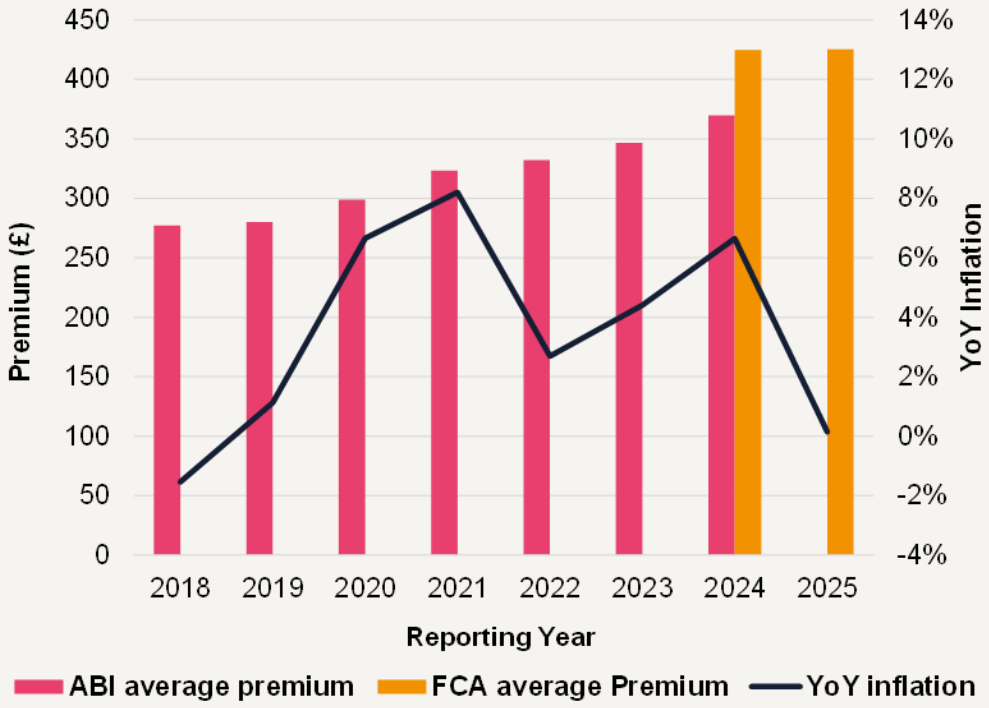
The number of insured pets was broadly stable at 4m prior to the Covid-19 pandemic. Lockdowns and remote working made pet ownership more feasible for many households, and exposure rose by around 14% between 2021 and 2022. Growth has continued, with a further 6% increase between 2024 and 2025. The FCA data shows higher exposure than the ABI data, reflecting wider market coverage and a different measure used by the FCA compared to the ABI (ie average policies in force rather than pet years).



Source: ABI market stats, year-end 2024, FCA general insurance value measures, year-end 2025

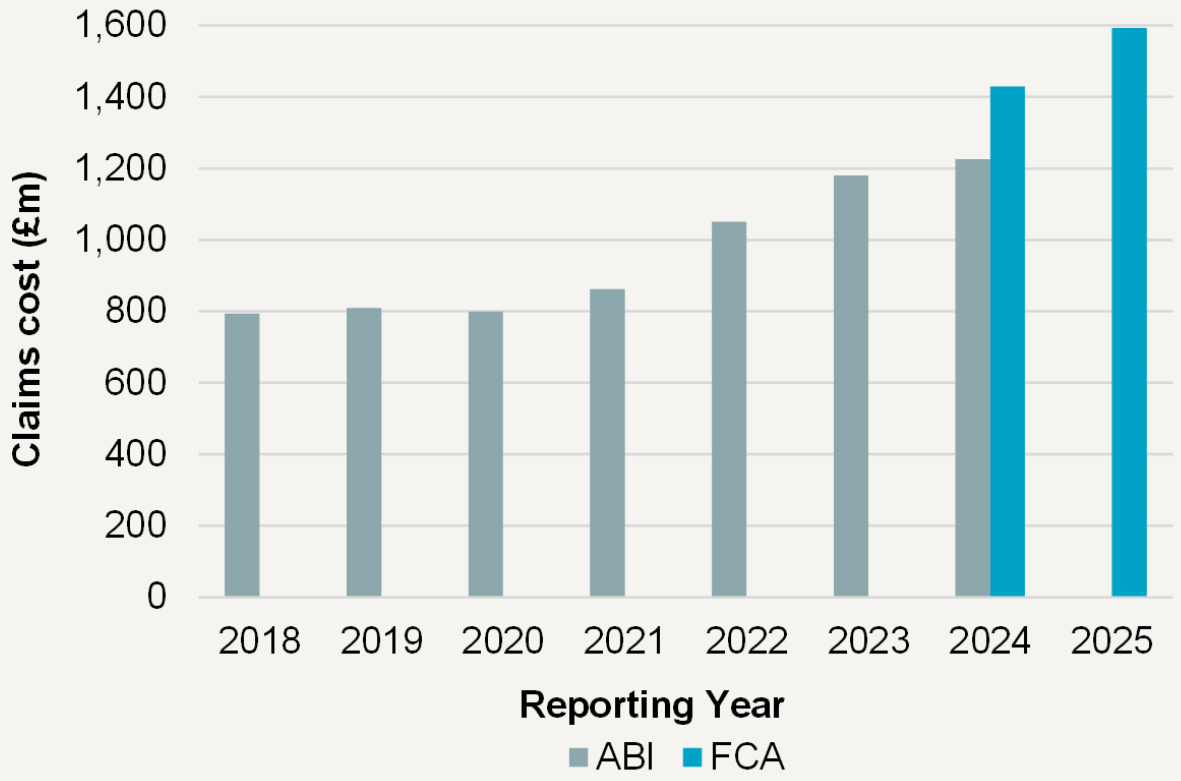
Average premium per pet

Average premiums increased every year between 2018 and 2024, with particularly large rises in 2020 and 2021, followed by slower increases. The FCA data shows that average premiums were broadly flat in 2025.This suggests the rise in market premiums over 2025 was driven by growth in the number of pets insured rather than by an increase in average premiums.



Pet – market claims cost

Claims cost



Source: ABI market stats, year-end 2024, FCA general insurance value measures, year-end 2025

Key highlights

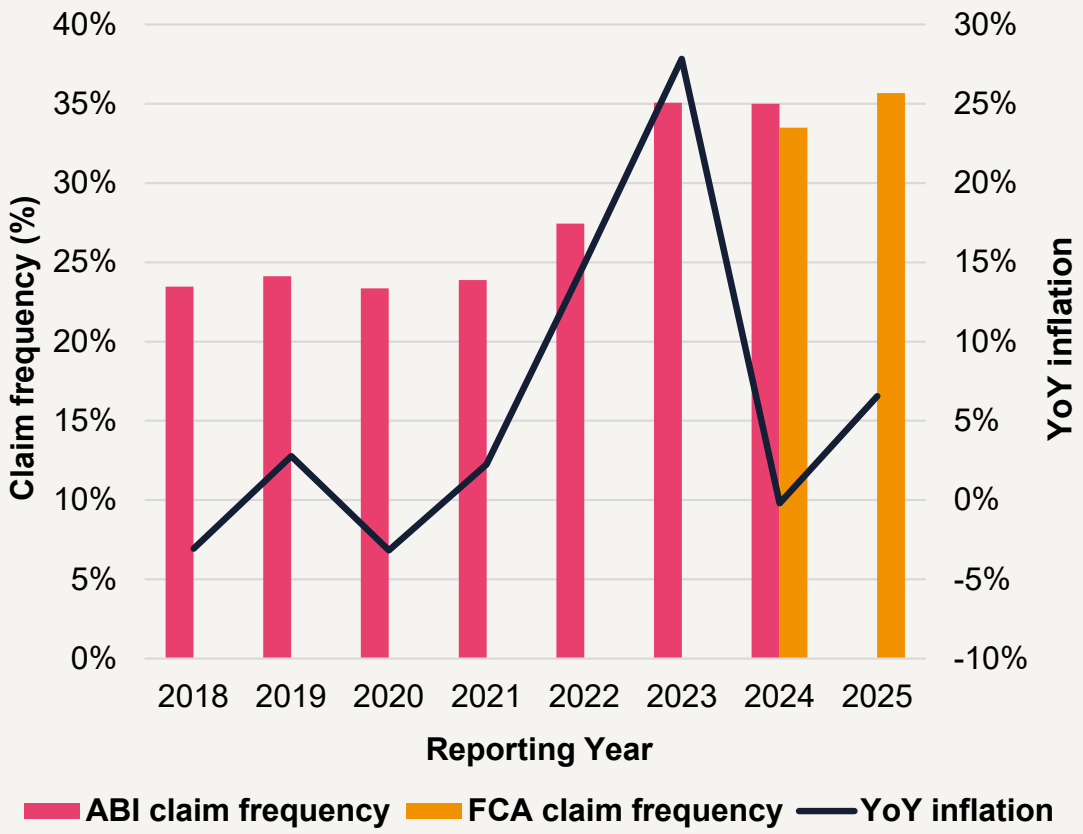
Claims costs have risen every year since 2020, and the FCA data shows this trend continuing into 2025.

The step up in 2021 and 2022 reflects the **growth in exposure**.

Gross claims increased by 11% between 2024 and 2025, driven by **increases in exposure and higher claim frequency** during the hot summer.

Note: FCA claims data is on a paid basis, which we consider a reasonable proxy for incurred claims given the short-tailed nature of pet insurance business. ABI data is on an incurred basis.

Pet – market claim frequency

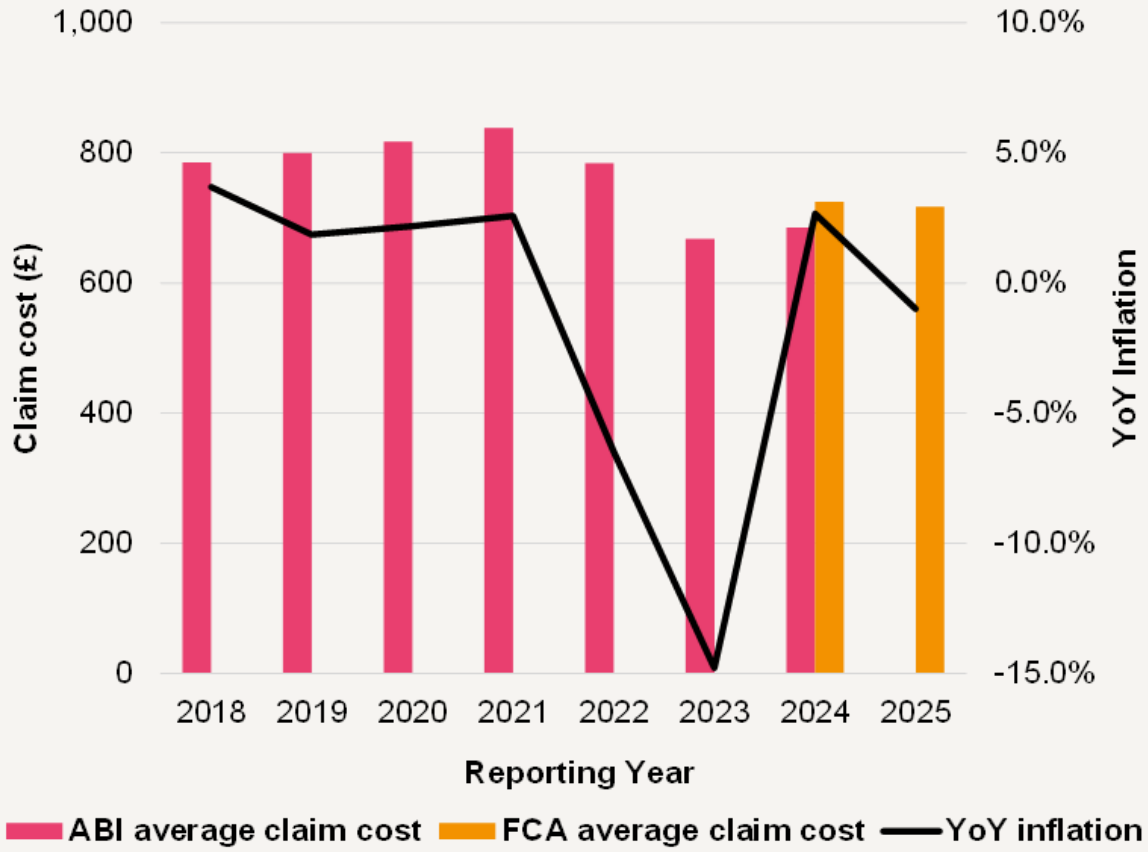


In focus – claim frequency trends

- Claim frequency was broadly stable until 2021, before **rising sharply over 2022 and 2023**.
- The 2022 increase may reflect a change in the mix of pets insured, with more first-time pet owners who may have been more inclined to seek veterinary care for minor concerns.
- The further increase in 2023 likely reflects the impact of **cost-of-living pressures** increasing owners' propensity to claim.
- Frequency **stabilised at this higher level** in 2024.
- Frequency **increased by 7% in 2025**, likely driven by weather-related claims such as heatstroke, dehydration and grass seed injuries during what was then the UK's warmest summer on record.

Source: ABI market stats, year-end 2024, FCA general insurance value measures, year-end 2025

Pet – market average claim cost



Source: ABI market stats, year-end 2024, FCA general insurance value measures, year-end 2025

In focus – average claim cost trends

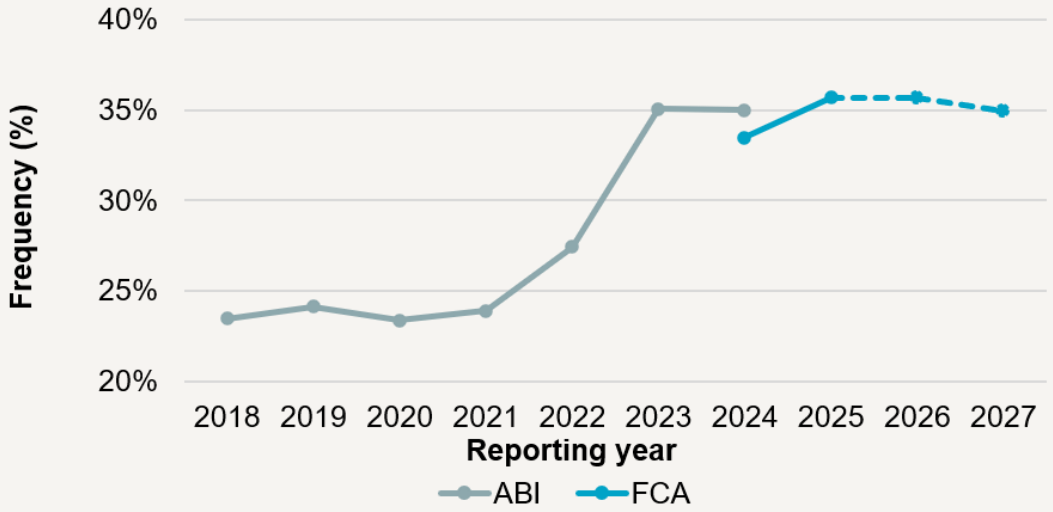
- Average claim costs **rose steadily between 2018 and 2021**, by around **3% pa** at a market level.
- **Costs fell over 2022 and 2023** as frequency rose. This is likely to reflect cost-of-living pressures, with owners more willing to claim for smaller amounts than before.
- Average costs have been **broadly stable since 2023.**
- This implies that **recent claims experience has been driven by frequency** rather than severity.

Pet – projections for 2026 and 2027

This year we have projected claim frequency and average claim cost separately, in line with our approach for motor and home.

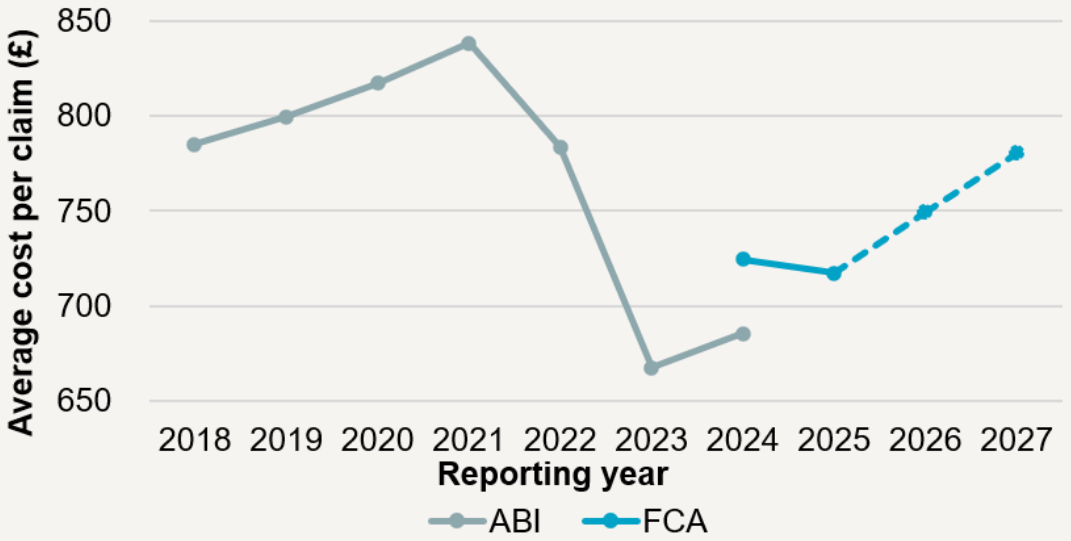
Claim frequency

Frequency rose in 2025, most likely driven by weather-related claims. 2026 has been hotter and drier still, which may point to further increases. However, the available data does not allow us to isolate weather-related claims and, given the uncertainty about the weather for the remainder of the year, we have assumed that frequency in 2026 will be similar to that in 2025. For 2027, we have projected a 2% reduction in frequency, reflecting expectations of a more typical summer, noting it's difficult to predict the weather that far in the future with certainty.



Average claim cost

Average claim costs fell in 2022 and 2023, as cost-of-living pressures likely led to owners claiming for smaller amounts than they may have previously. Since then, average costs have been broadly stable. We have projected average costs to increase by around 4% pa in 2026 and 2027, driven by continued inflationary pressures.



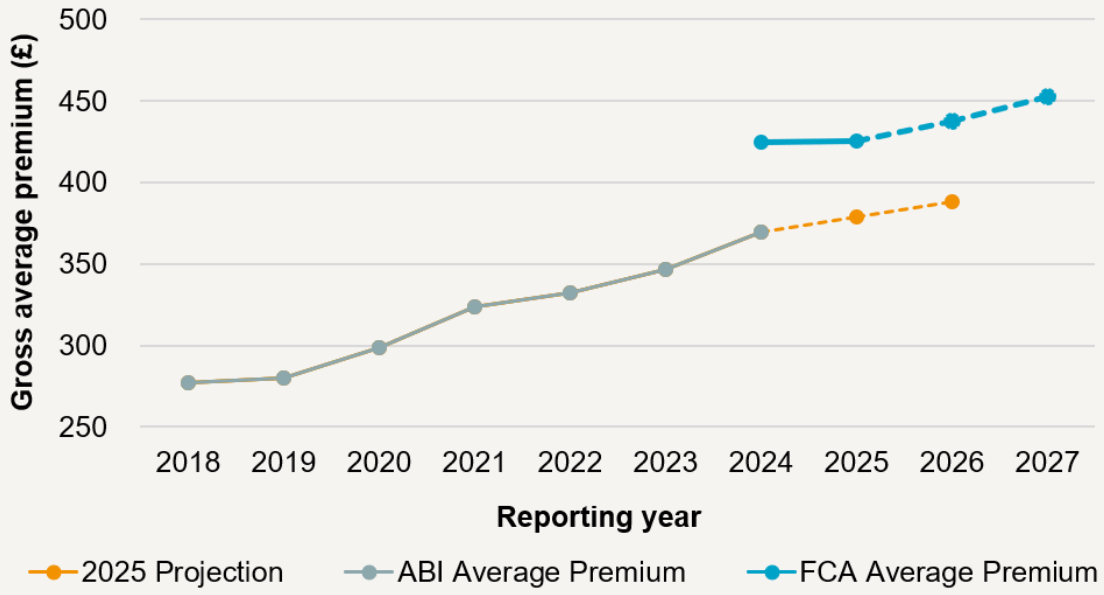
Source: ABI market stats, year-end 2024, FCA general insurance value measures, year-end 2025

Pet – projections for 2026 and 2027

Gross average premiums

Recent headlines suggest pet premiums are falling, but these mostly relate to new business prices. Given much of the pet market relates to lifetime policies, a large share of the market is renewals where prices are less visible and more likely to rise with claims inflation.

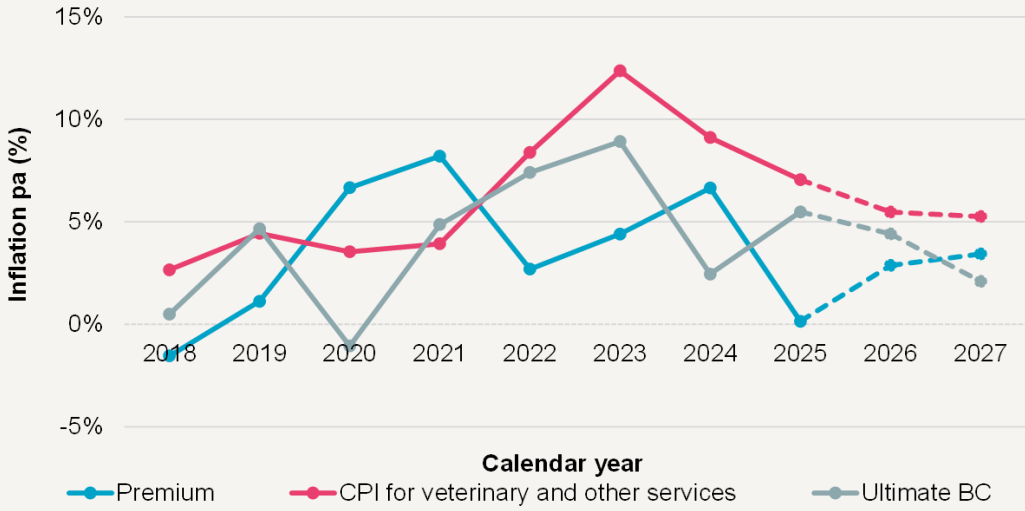
We have projected average premiums to increase by around 3% pa over 2026 and 2027. These increases reflect the expected impact of inflationary pressures, partially offset by competition within the market.



Source: ABI market stats, year-end 2024, FCA general insurance value measures, year-end 2025

Inflationary pressures

The chart below compares inflation in average premiums and claims burning cost with inflation in the CPI for 'veterinary and other services for pets'.



CPI for 'veterinary and other services for pets' has fallen from its 2023 peak but remained high at 7% in 2025. We expect it to decrease in 2026 and 2027, but more slowly than previously, as potential inflationary impacts from the Iran war spread to other areas. Burning cost inflation has often run below this CPI measure, and we expect this to continue.

In 2025, average premiums were flat. We expect premiums to increase in 2026 and 2027 as insurers catch up with claims cost inflation from previous years.

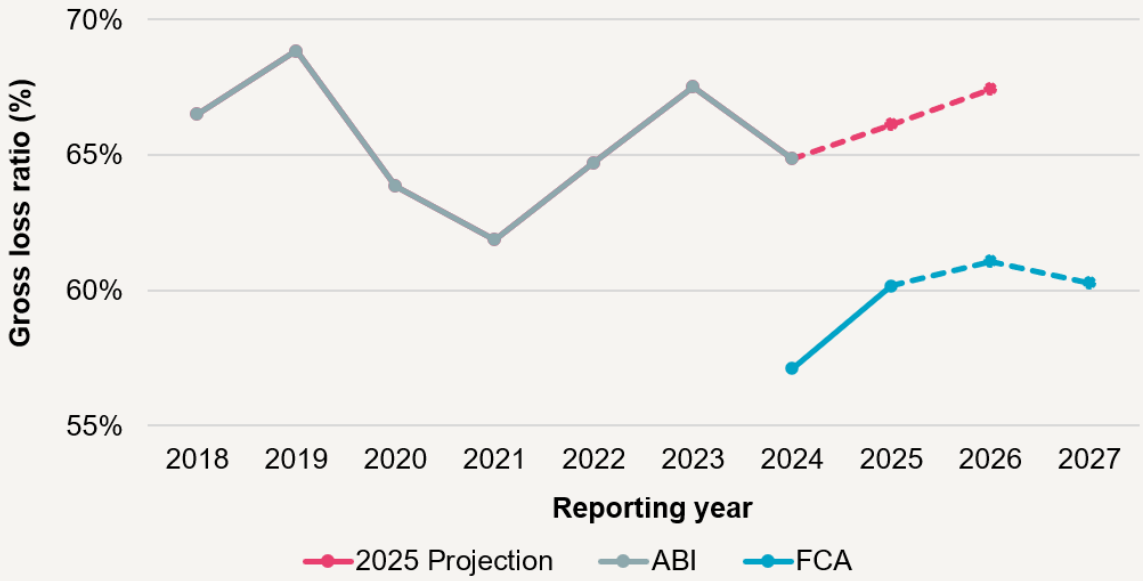
Pet – projections for 2026 and 2027

Gross loss ratios

Last year, we projected the market level gross loss ratio to deteriorate in 2025 and 2026. Given we rely on the FCA data source for 2025 and our projections over 2026 and 2027 rather than the ABI data, we cannot directly compare our previous and current projections. However, in broad terms, the deteriorations we projected last year are also evident in the FCA data for 2025, but the deterioration was greater than expected, reflecting the impact of the hot summer on pet claims.

We now project that **market level gross loss ratios will increase to 61% in 2026**, driven by claims inflation, **before returning to 60% in 2027**. This reflects an expectation of a more typical summer in 2027, reducing claim frequency, as well as premiums rising faster than claims.

Gross loss ratio by year



Source: ABI market stats, year-end 2024, FCA general insurance value measures, year-end 2025

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Contact us



Ed Harrison
Partner
+44 20 3314 4783
ed.harrison@lcp.uk.com



Charl Cronje
Partner
+44 (0)20 7432 6751
charl.cronje@lcp.uk.com



Katie Garner
Senior Consultant
+44 (0)20 7432 7783
katie.garner@lcp.uk.com



Richard York-Weaving
Senior Consultant
+44 (0)20 3824 7249
richard.york-weaving@lcp.uk.com



Edward Gaughan
Consultant
+44 (0)20 3314 4952
edward.gaughan@lcp.uk.com



Gayatri Patel
Senior Consultant
+44 (0)20 3824 7428
gayatri.patel@lcp.uk.com

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