Shifting gears:

our market outlook for UK motor and home insurance

LCP powering possibility

Introduction

It's been a challenging market for personal lines insurers to navigate over recent years. Understanding what's been happening in the market as a whole is an important step in ensuring you remain competitive and relevant in the coming years.

This report considers the key drivers of recent historical performance and provides our projections of market performance over 2024 and 2025.

We have considered premiums, claims projections and other factors feeding into the market net combined operating ratios. We have also recommended hot topics for home and motor insurers to proactively consider for year-end 2024.

We're excited to share our motor and home market insights with you.

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

Ed Harrison

Charl Cronje

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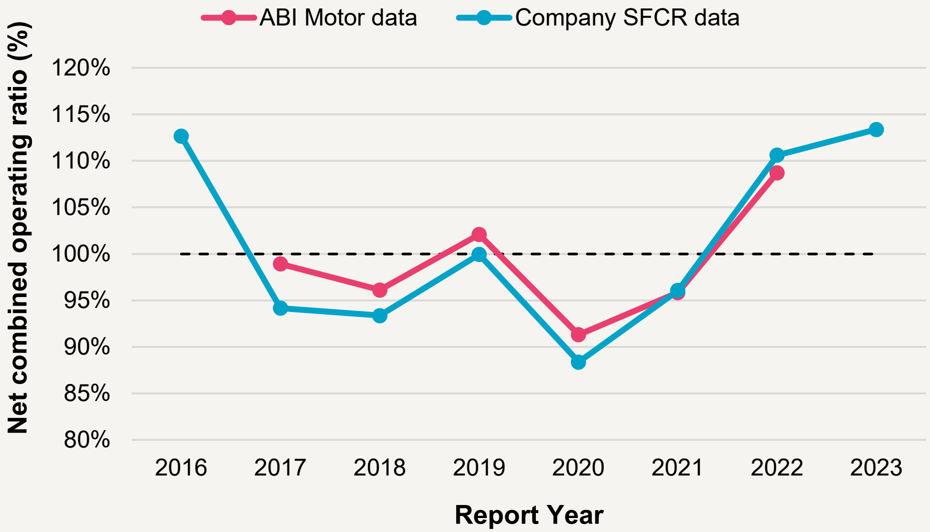
Motor - key highlights

Recent performance

The motor market was profitable during 2020 and 2021, mainly because of low vehicle miles during the Covid-19 pandemic. 2022 and 2023 saw adverse experience and significant losses for the market as a whole. Claims costs rose rapidly as traffic volumes increased and as higher inflation impacted repair costs. In addition, market premiums were relatively slow to respond to the increasing claims costs.

Net combined operating ratio since 2016



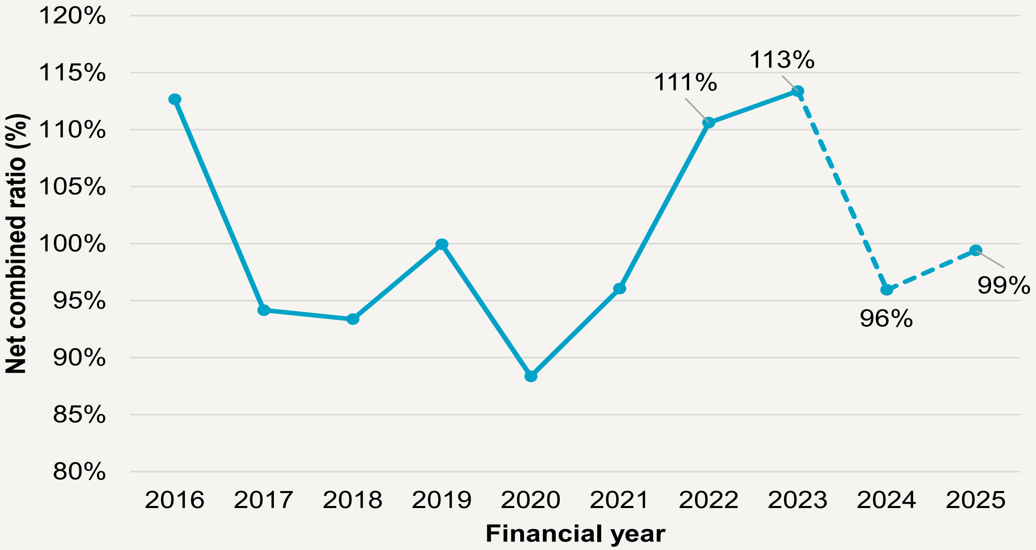
Note: SFCR data includes both personal and commercial motor business.

Future projections

We expect a return to profitability in 2024 (96% COR) and 2025 (99% COR), driven by:

- Strong premium rate increases over the 2023 underwriting year
- Reductions in claim frequency
- Lower claims inflation.

Net combined operating ratios

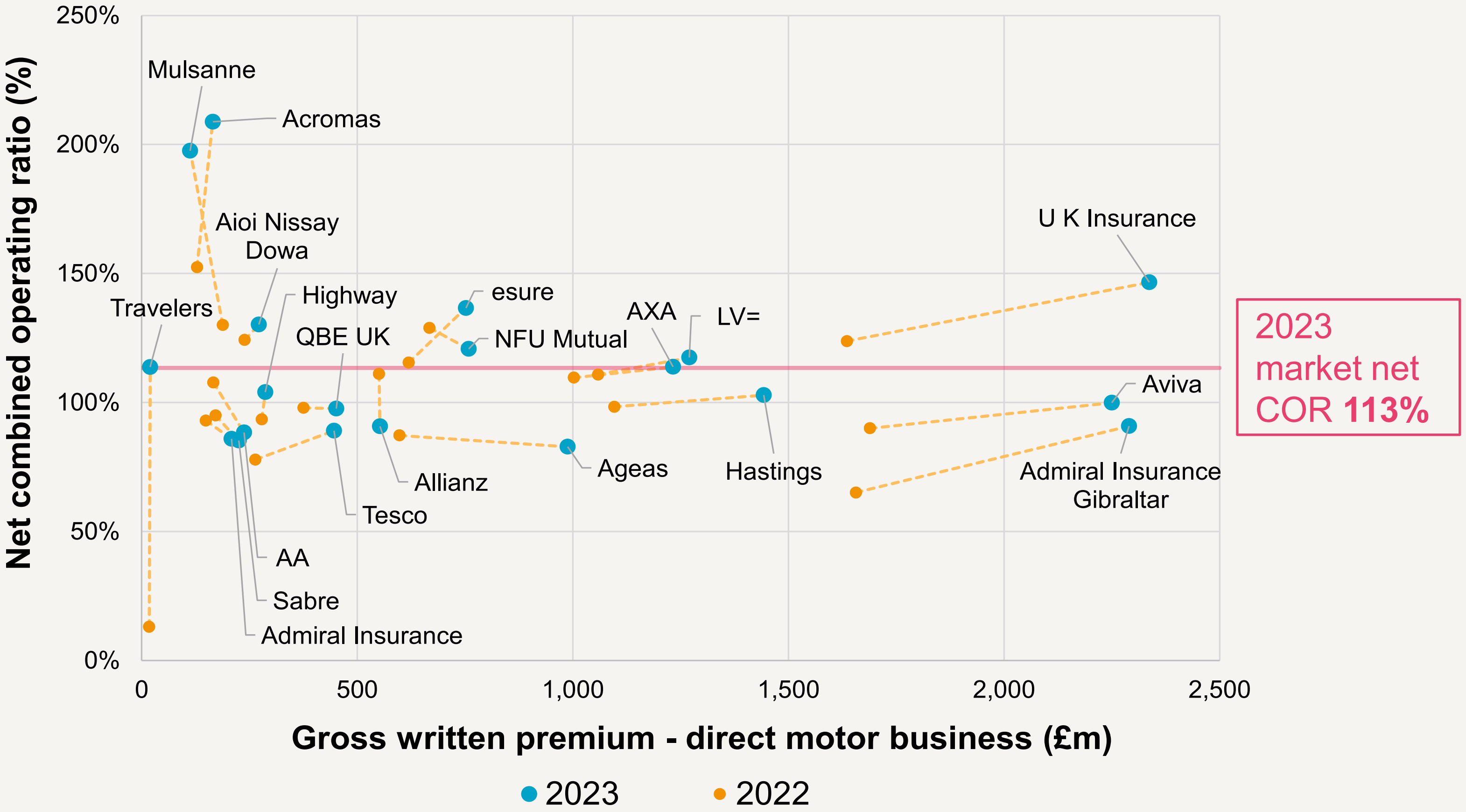


Source: 2023 & prior net combined ratios based on company annual SFCRs via Solvency II Wire Data

Motor - recent performance

The chart below shows the net combined operating ratio and gross written premium for a sample of individual insurers in 2022 and 2023. The **pink line** shows the aggregate market net combined ratio for this sample.

Review of 2023 performance



Source: Net combined ratios and gross written premium based on company annual SFCRs via Solvency II Wire Data

Highlights

Almost all insurers in this sample **grew their gross written premium from 2022 to 2023.**

Increases in net combined operating ratios have been driven by claims experience. **Expense ratios have been relatively stable over the year.**

Increasing loss ratios were driven by inflation and **ongoing supply chain disruptions.** Insurers have reacted by **significantly increasing premiums**.

Changing driving patterns post-pandemic have also played a role in shaping 2023 performance.

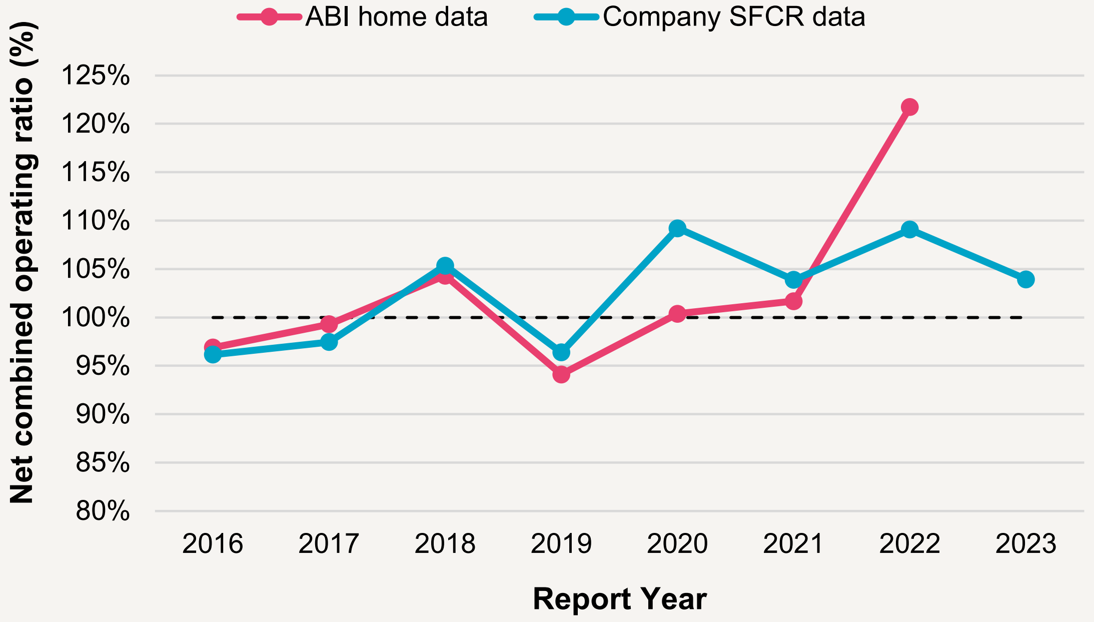
Home - key highlights

Recent performance

Year-on-year volatility has been driven by weather experience and the Covid-19 pandemic. The overall theme across 2016-2023 has been one of marginal profitability with a soft market failing to keep up with inflation.

Note: SFCR data is for "fire and other damage to property". It will include both home insurance and commercial property. ABI data is for home only.

Net combined operating ratio since 2016



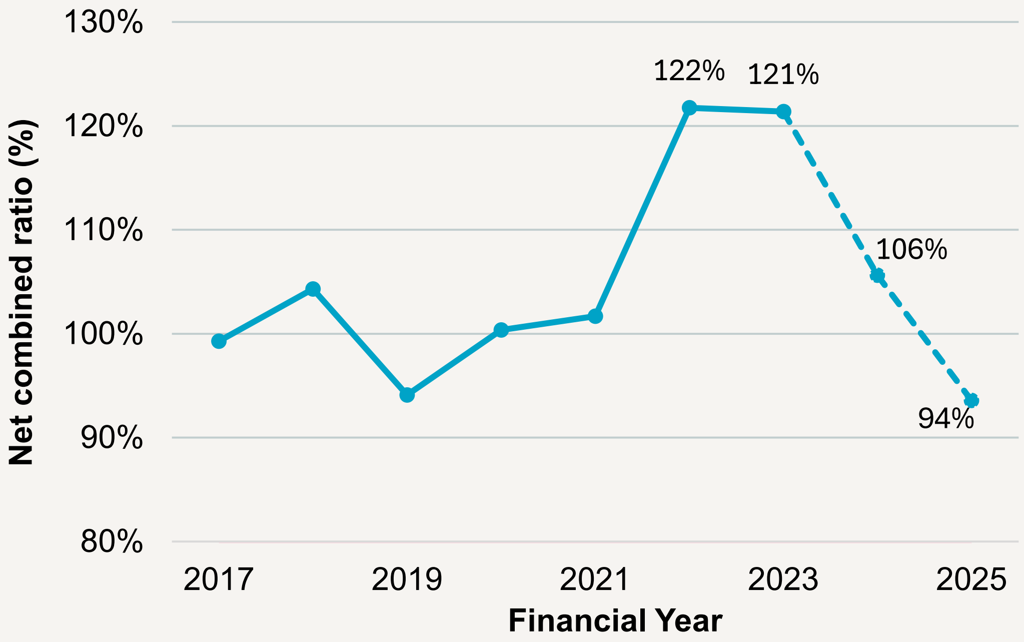
Source: 2023 & prior net combined ratios based on company annual SFCRs via Solvency II Wire Data

Future projections

Our expectation is that the market will improve in 2024 and return to profitability in 2025, driven by:

- premium rate increases in 2024
- easing of inflationary pressures on claims.

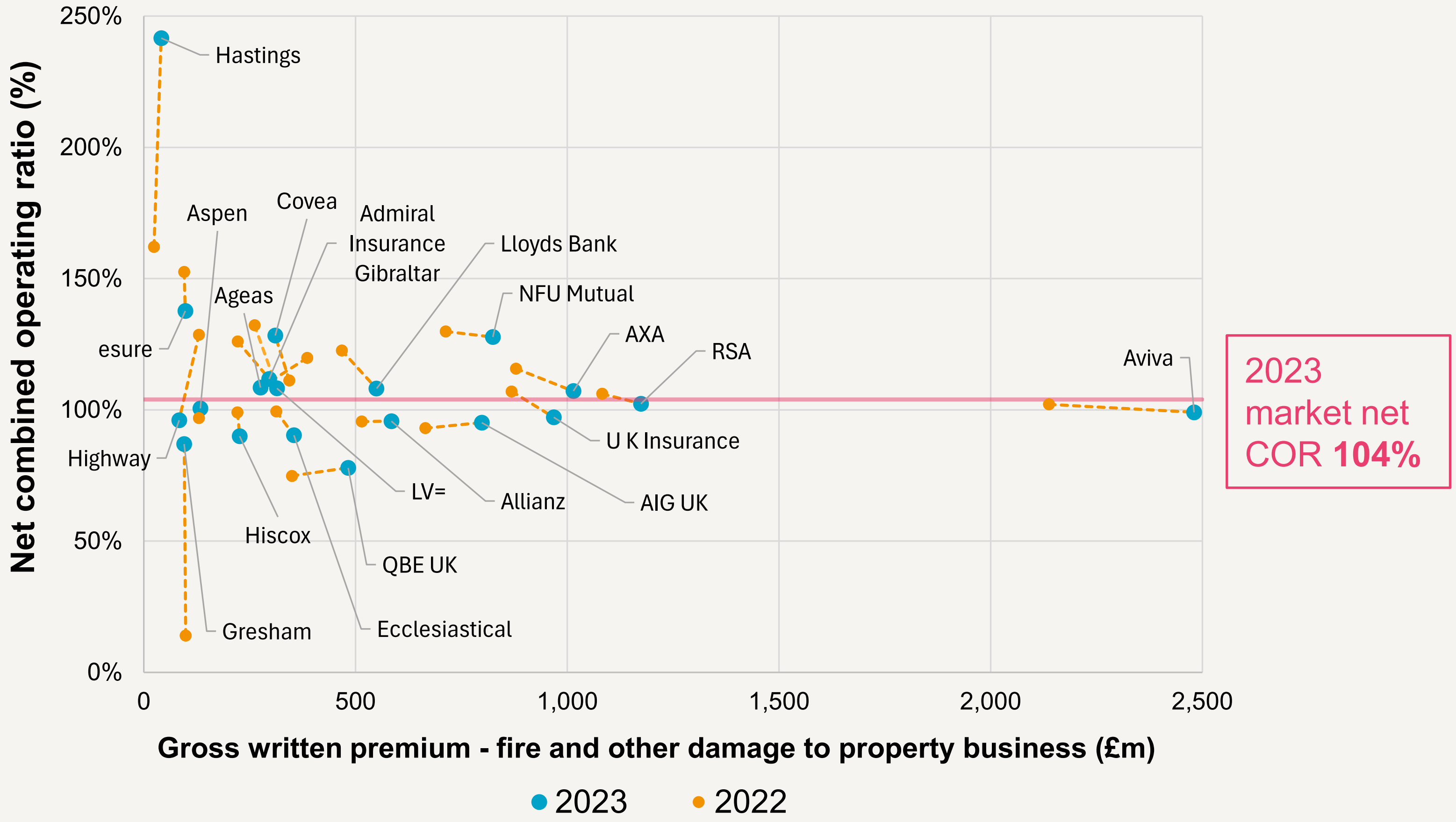
Net combined operating ratios



UK home/commercial - recent performance

The chart below shows the net combined operating ratio and gross written premium for a sample of individual insurers in 2022 and 2023. The **pink line** shows the aggregate market net combined ratio for this sample.

Review of 2023 performance



Source: Net combined ratios and gross written premium based on company annual SFCRs via Solvency II Wire Data

Highlights

Insurers reacted to **high claims inflation** by increasing premiums. Most insurers in this sample **grew their gross written premium from 2022 to 2023.**

Net combined operating ratios decreased for approximately half of the insurers in this sample. This improvement was partly due to a **decrease in expenses.**

There was a **slight decrease in loss ratios from 2022 to 2023,** although the longer-term trend has been one of increasing loss ratios.

Hot topics for the 2024 year-end

Motor

With the new PIDR (Personal Injury Discount Rate) due by 11 January 2025, **prepare for a quick reserving turnaround at year end** by producing results on an expected rate together with alternative scenarios.

The exact timing of the announcement is uncertain and so firms should **closely monitor trends in pricing** and **plan carefully for 1 January reinsurance renewal negotiations**.

Inflation remains a key risk on BI claims. Ensure sufficient allowance in your reserves for higher whiplash tariffs and consider the potential for an inflationary sting in the tail on large BI claims.

Closely monitor frequency and severity trends into 2025. Market profitability levels are only marginal and, given ongoing **geopolitical uncertainties**, there remains the risk of further inflation shocks.

Home

Construction industry supply chain issues continue to drive up the cost of labour and materials, impacting **claim severity** on perils involving substantial home repairs and rebuilds.

Continued improvements in security systems, leak detection, building standards and appliance safety have helped drive **lower frequency on most perils.**

Weather experience in Q4 will have a material impact on 2024 market performance and will have a bearing on when the market moves into a softer phase. Longer term, climate change will affect the type, frequency and severity of weather events.

Premium increases are expected to continue over 2024 as insurers play catch-up with inflation. Firms need to be ready to react with pricing when the market starts to soften, perhaps early in 2025.

Motor projections

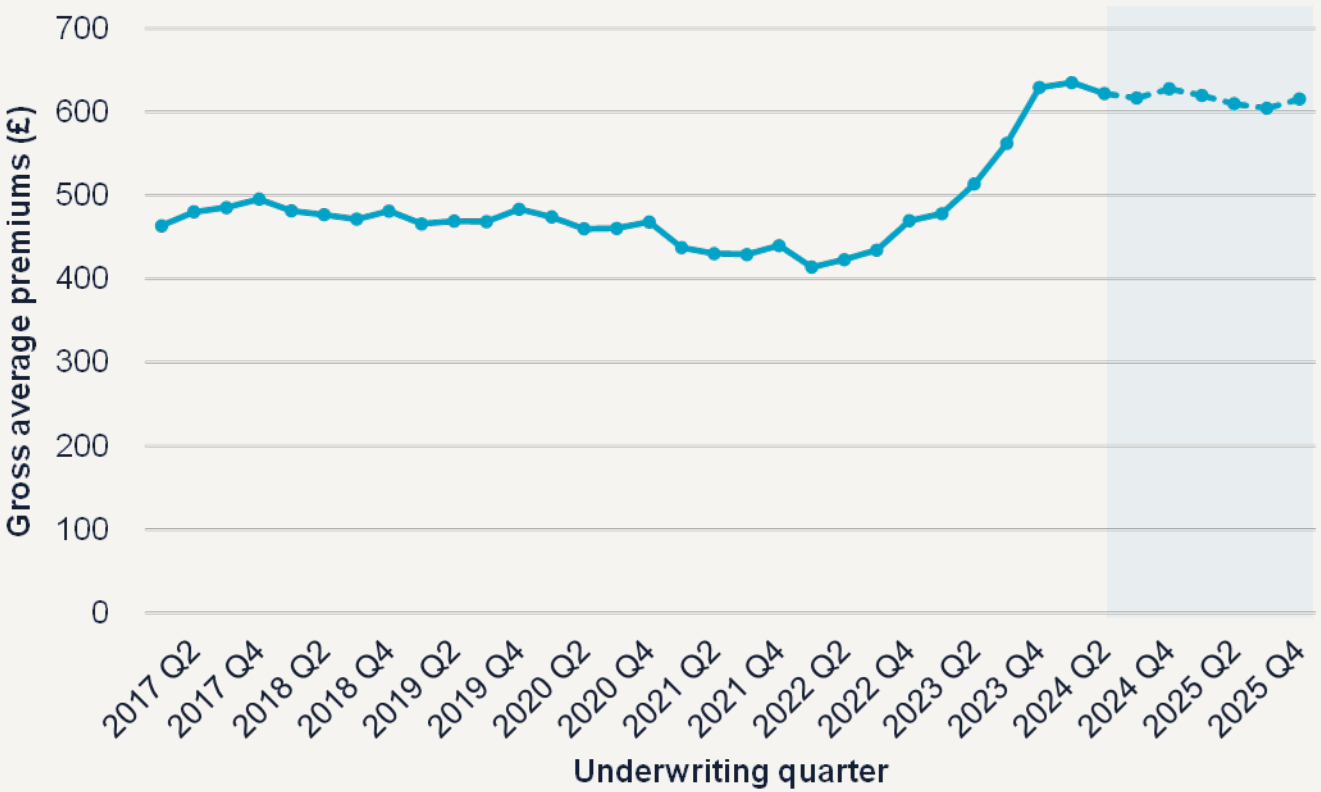
Although some stability has returned to motor trends after Covid-19 and a period of high inflation, interpreting the underlying landscape for claim frequency and severity remains challenging.

Richard York-Weaving, LCP

Motor – premiums

The following chart shows gross average premiums by underwriting quarter from 2017 Q1 to 2024 Q2, including our projections for 2024 Q3 to 2025 Q4.

Gross average premiums



Key highlights

Strong increases in average premiums over 2023 in response to high claims inflation, with premiums 34% higher in 2023 Q4 than 2022 Q4.

Written premiums have levelled off in 2024, with 2024 Q2 the first quarterly decrease in premiums in over two years.

We expect further slight reductions in premiums over 2025 now that the market has stabilised and in anticipation of an increase in the PIDR.

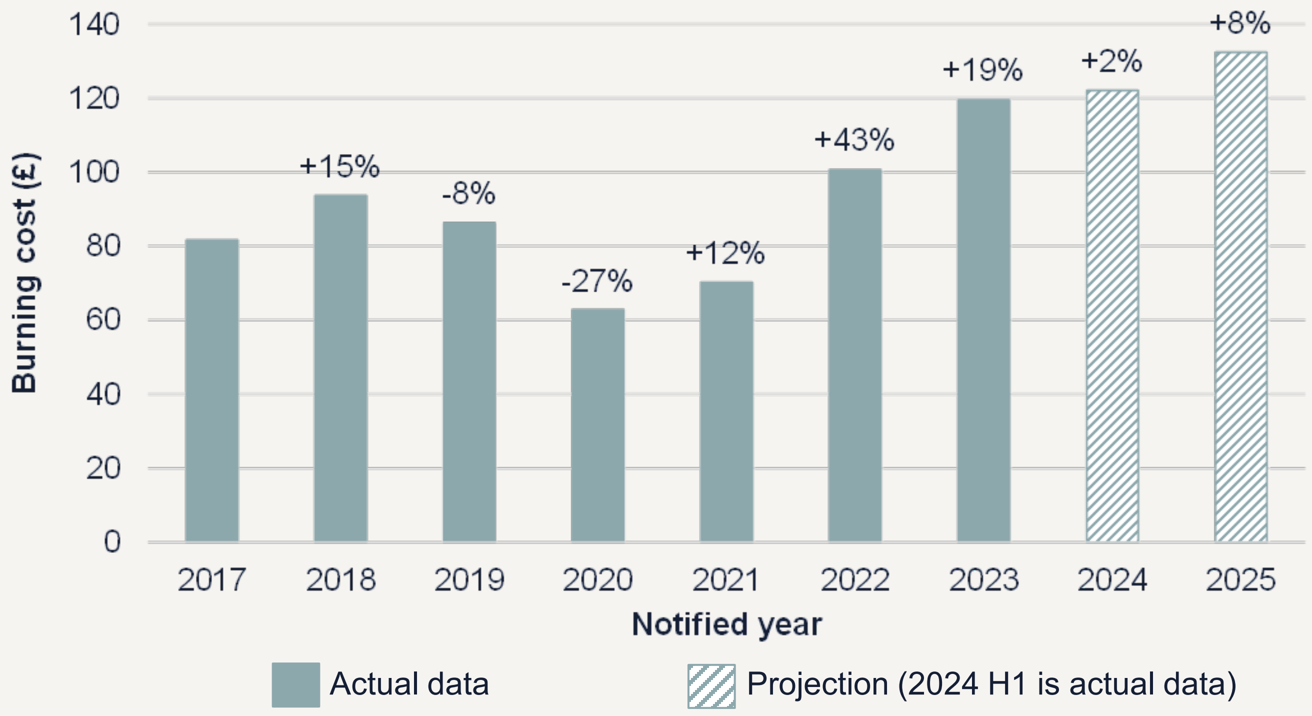
In our view, there is **limited scope for further reductions in average premiums,** given the expected marginal profitability at a market level.

Source: 2024 Q2 and prior average premiums are based on premium data from the ABI

Motor – accidental damage

Accidental damage (AD) claims trends have been distorted by the Covid-19 pandemic and the resulting longer-term changes to driving habits. Post-Covid traffic volume increases and high inflation led to significant increases in burning cost in 2022 and 2023.

Burning cost



Key highlights

Slowdown in burning cost inflation in 2024, driven by **strong downward trend in claim frequency**.

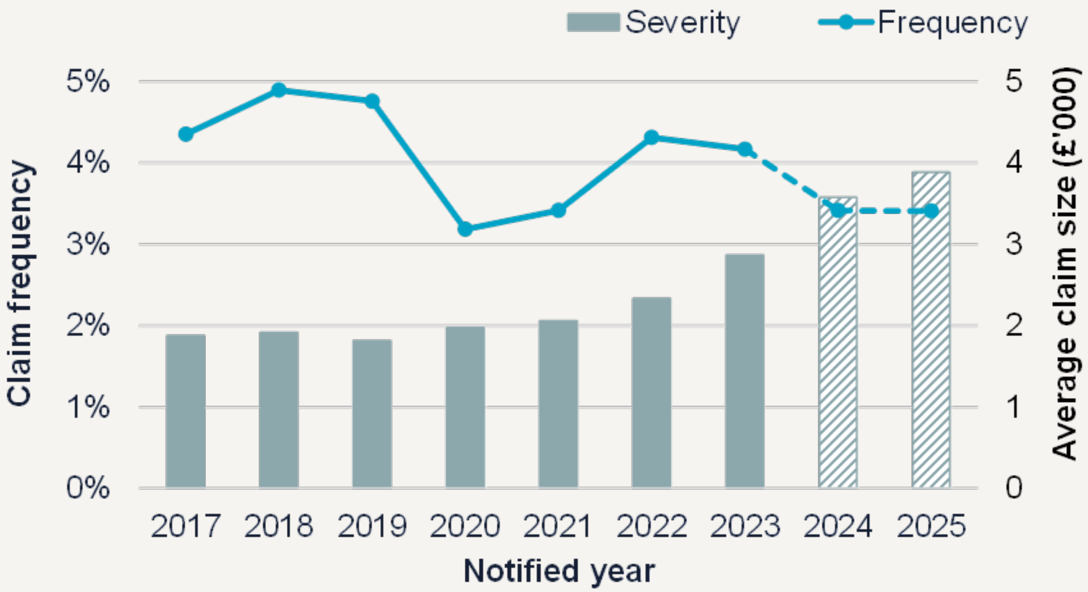
Lower claims frequency but higher claims severity in 2024, potentially suggesting a **shift in the mix of claims**.

We expect higher burning cost inflation in 2025 (+8%) due to expected levelling-off in claim frequency and continued severity inflation.

Source: 2024 Q2 and prior incurred burning costs are based on claims data from the ABI

Motor – accidental damage

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2023	-3%	+23%	+19%
2024	-18%	+25%	+2%
2025	0%	+9%	+8%

Frequency

- The general **reductions in frequency since 2019 are driven by several factors**, including improvements in vehicle safety, reduced traffic volumes and wider changes in driving habits following the pandemic.
- The **downward trend in frequency in 2023 has continued into 2024** (see next page). This downward trend has coincided with a notable increase in claim severity over 2023.
- **We don't consider the improving frequency trend to be sustainable** and therefore we are assuming broadly flat claim frequency from 2024 into 2025.

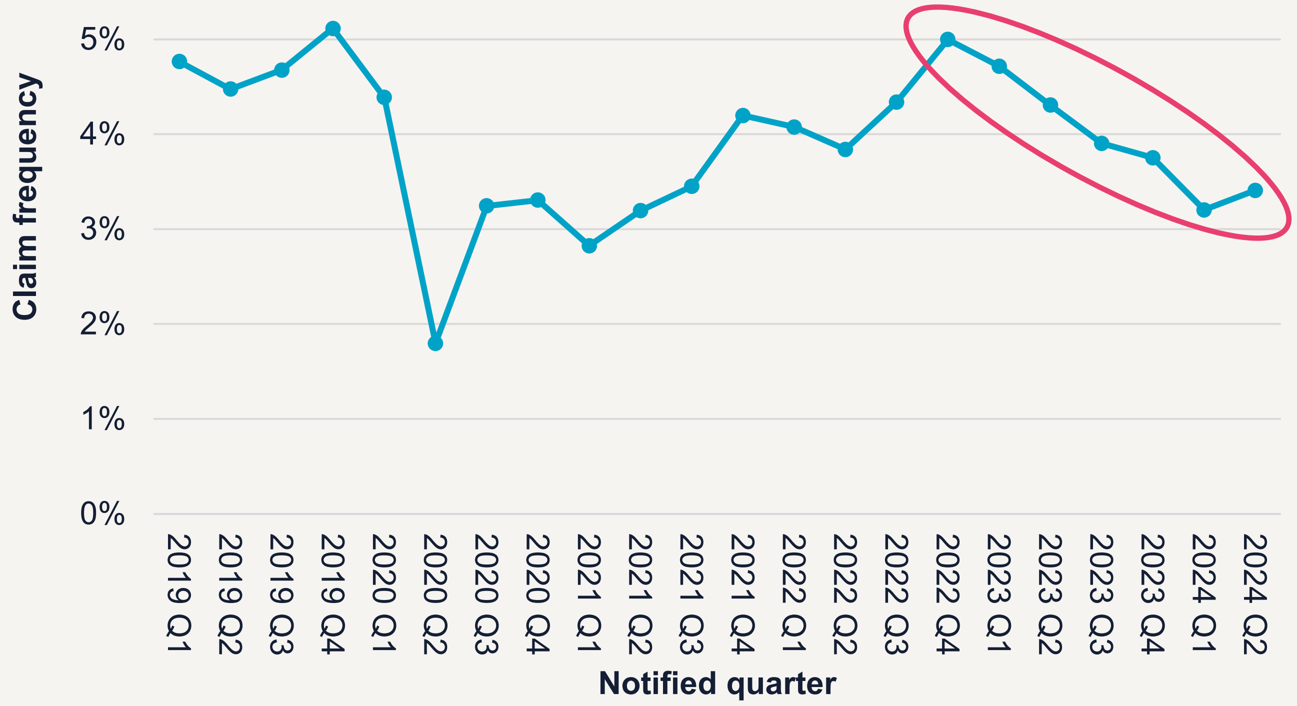
Severity

- After a period of high inflation and a notable increase in claim severity in late 2023, **claim severity appears to be stabilising in 2024**.
- Our projections assume that **claim severity inflation returns to more normal levels** going forward. We assume that severity inflation for AD claims will be 6% pa higher than CPI. This is reflective of longer-term above-CPI inflation on motor AD, driven primarily by increasing sophistication of car parts.

Source: 2024 Q2 and prior frequencies, severities and burning costs are based on claims data from the ABI

Motor – accidental damage

Claim frequency – quarterly



In focus – claim frequency trends

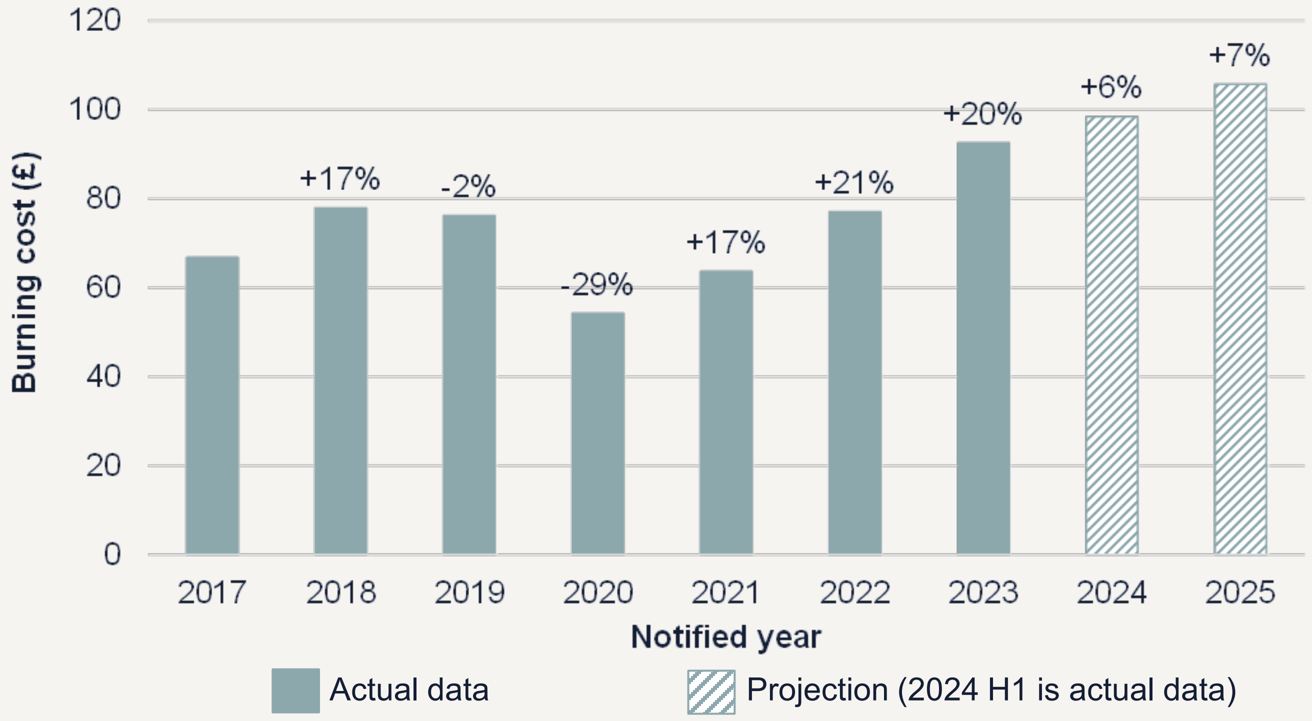
- **Claim frequency appeared to be returning close to pre-Covid levels at the end of 2022**. Frequency in 2022 Q4 was particularly high, driven by severe weather conditions.
- There was **a strong downward trend in frequency over 2023**. This **trend has continued into 2024**, although there are signs that this may be starting to level off.
- In addition to the general factors driving lower frequency since 2019 (see previous page), one possible further explanation could be **lower propensity to claim for minor accidental damage** in the face of cost-of-living pressures, as policyholders will need to pay the excess and face future premium increases.

Source: 2024 Q2 and prior frequencies are based on claims data from the ABI

Motor – third party damage

Like AD, third party damage (TPD) trends were distorted by Covid-19. However, the resulting changes to driving habits have led to a proportionately greater reduction in TPD frequency than on AD. This means that overall burning costs relative to pre-Covid levels have increased less strongly on TPD than on AD.

Burning cost



Key highlights

Slowdown in burning cost inflation in 2024, driven by a **downward trend in claim frequency**.

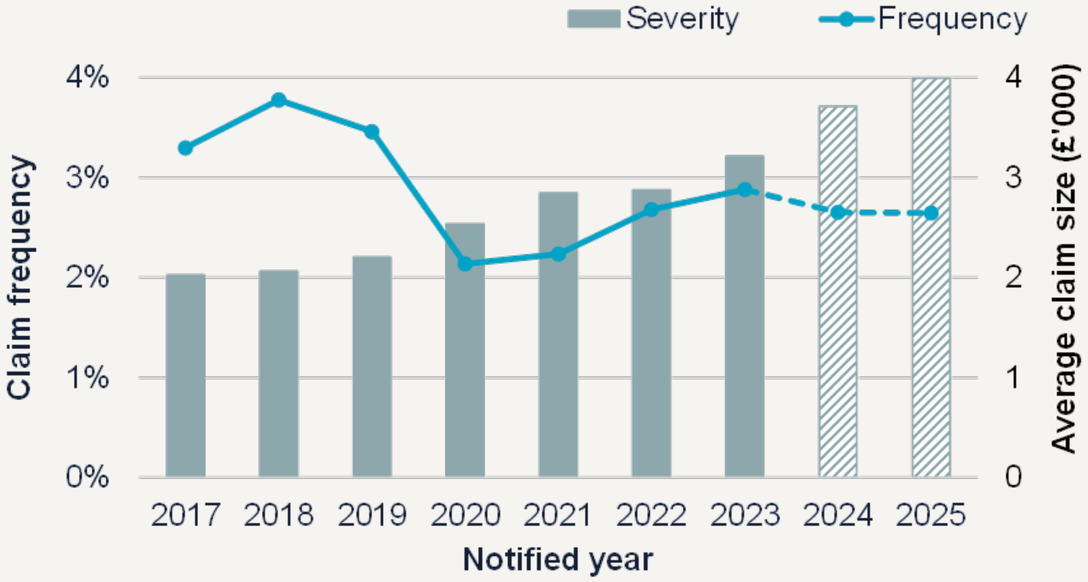
Similar to AD, lower frequency but higher severity in 2024, potentially suggesting a **shift in the mix of claims**.

We expect similar burning cost inflation in 2025 (+7%) due to an assumed levelling-off in claim frequency and reductions in severity inflation.

Source: 2024 Q2 and prior incurred burning costs are based on claims data from the ABI

Motor – third party damage

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2023	+7%	+12%	+20%
2024	-8%	+15%	+6%
2025	0%	+8%	+7%

Frequency

- The general **reductions in frequency since 2019 are driven by similar factors to those on AD**, including improvements in vehicle safety and reduced traffic volumes.
- In addition, **changes to driving habits post-pandemic appear to have resulted in greater frequency reductions on TPD** than on AD (see next page).
- Consistent with AD, **we don't consider the recent frequency savings to be sustainable** and therefore are assuming broadly flat claim frequency into 2025.

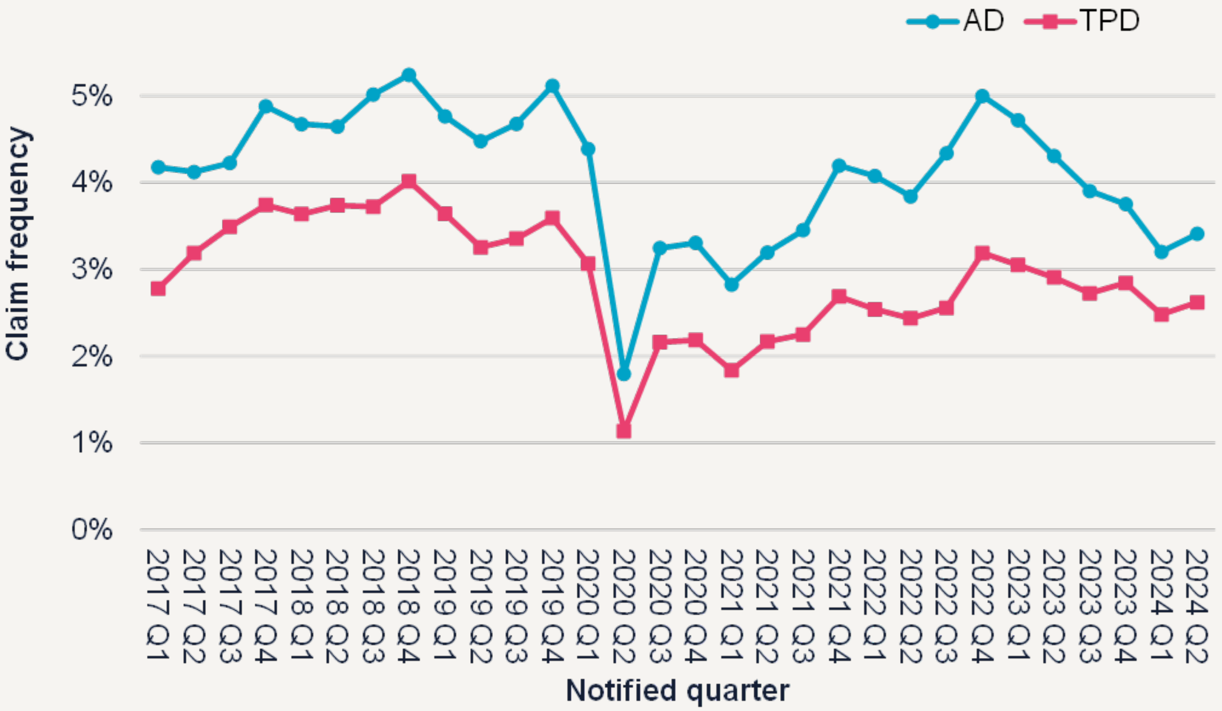
Severity

- After a period of high inflation and a notable increase in claim severity in late 2023, **claim severity appears to be stabilising in 2024**.
- Our projections assume that **claim severity inflation returns to more normal levels** going forward. We assume that severity inflation for TPD claims will be 5% pa higher than CPI.

Source: 2024 Q2 and prior frequencies, severities and burning costs are based on claims data from the ABI

Motor – third party damage

Claim frequency – AD vs TPD – quarterly



In focus – AD vs TPD frequency trends

Claim frequencies for AD and TPPD follow broadly similar patterns. However, there are some notable differences:

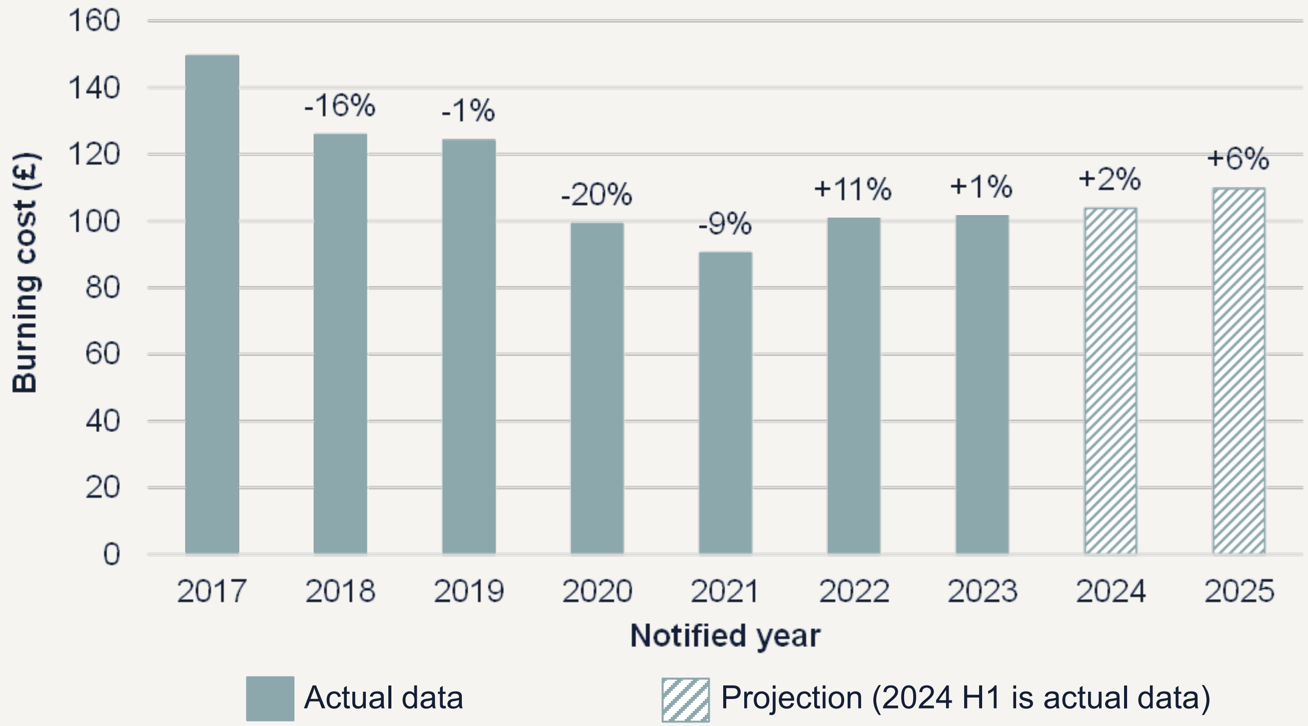
- AD frequency appeared to be returning **close to pre-Covid levels at the end of 2022** but has since seen a **strong decreasing trend**.
- TPD frequency has remained consistently lower than pre-Covid levels. Post-pandemic changes to driving habits mean there is **less traffic during rush hours and therefore fewer minor collisions** leading to TPD claims.
- Increased use of **Advanced Driver Assistance Systems** (ADAS) is also 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 reduced significantly over 2023 and 2024. One possible explanation for this could be **lower propensity to claim for minor accidental damage** in the face of cost-of-living pressures, as policyholders will need to pay the excess and face future premium increases.

Source: 2024 Q2 and prior frequencies are based on claims data from the ABI

Motor – bodily injury

Like damage claims, bodily injury (BI) claims were significantly affected by Covid-19. BI claims comprise a wide distribution of types of claim, from small payouts for minor injuries to multi-million payouts for the most severe injuries. There is a range of factors affecting the frequency and severity trends for small and large BI claims.

Burning cost



Key highlights

Lower burning costs post-pandemic are due to a combination of **reduced third party accidents** and the **impact of the whiplash reforms**.

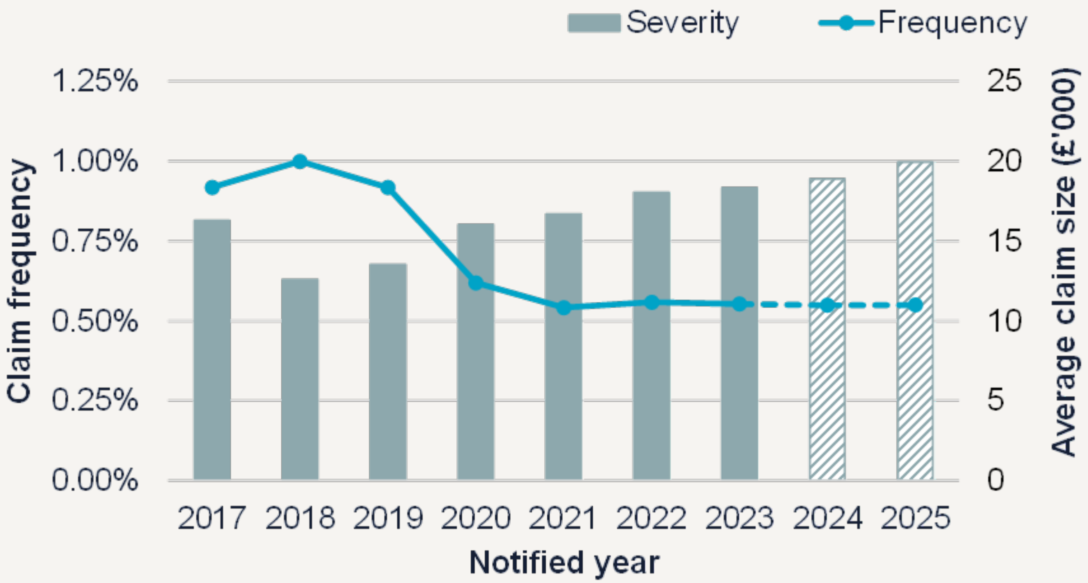
Lower claims inflation than on damage, but large BI claims are slow to develop and there remains a **risk of an inflationary sting in the tail**.

Our projected burning costs for 2024 and 2025 reflect **expected savings as a result of an assumed +0.5% personal injury discount rate (PIDR)**.

Source: 2024 Q2 and prior incurred burning costs are based on claims data from the ABI

Motor – bodily injury

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2023	-1%	+2%	+20%
2024	-1%	+3%	+6%
2025	0%	+6%	+7%

Frequency

- Frequency has been relatively flat post-Covid despite increasing traffic volumes. This is due to the introduction of the **whiplash reforms**, effective from 31 May 2021, which resulted in a c.20% reduction in BI frequency.
- We are assuming **claim frequency continues to be broadly flat** into 2025.

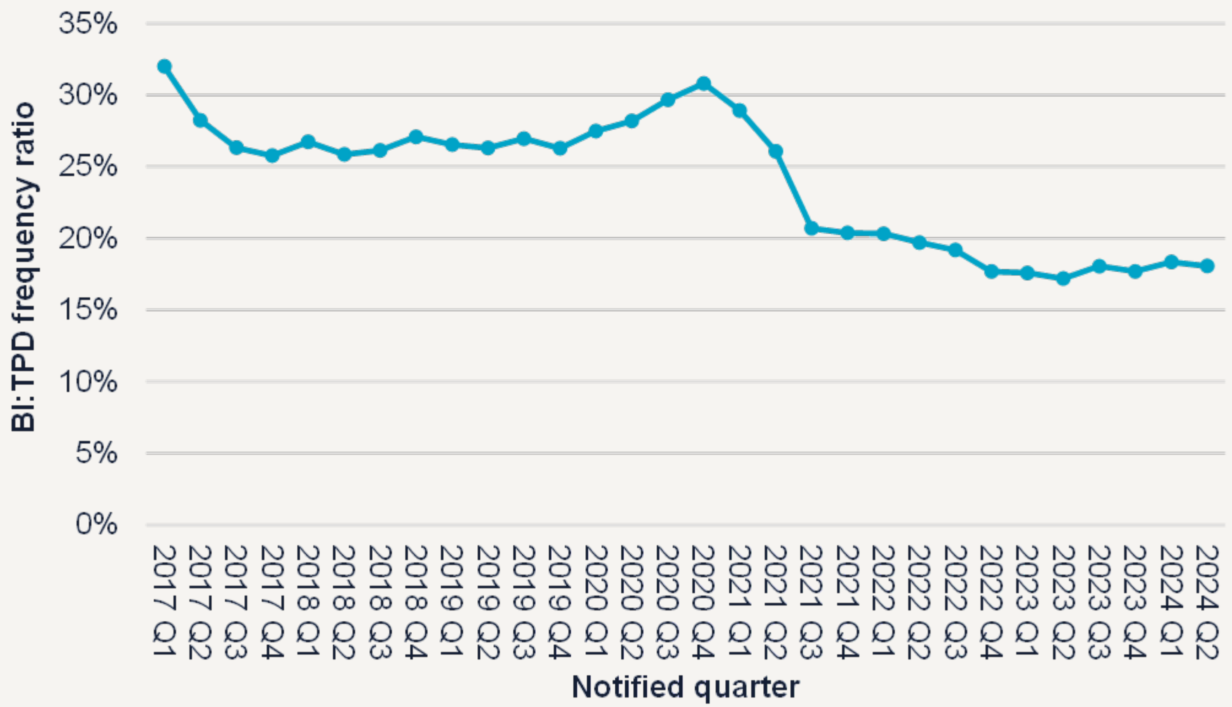
Severity

- Increase in severity 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, although there has been upward pressure on these because of inflation (eg +22% increase in General Damages in early 2024). We expect to see a similar increase in the whiplash tariffs soon.
  - **Larger BI claims** – these typically include significant elements of loss of earnings and cost of care, which are more closely linked to wage inflation. We anticipate an increase in the PIDR in England and Wales which would reduce severity of larger BI claims.

Source: 2024 Q2 and prior frequencies, severities and burning costs are based on claims data from the ABI

Motor – bodily injury

Ratio of BI:TPPD claim frequency – quarterly



Note: The whiplash reforms were effective from 31 May 2021. This means that 2021 Q2 contains one month (June) post reform. 2021 Q3 is the first full quarter post-reform.

In focus – whiplash reforms

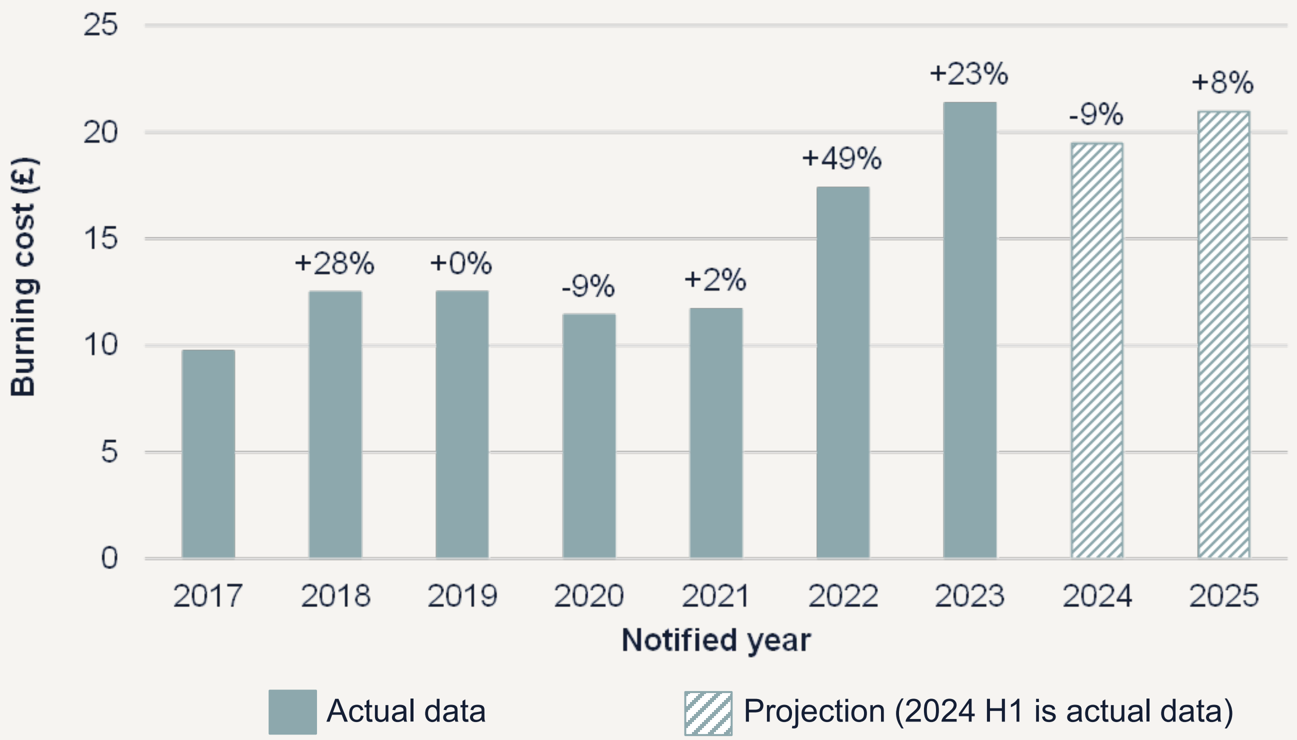
- The chart shows the proportion of TPD claims that also result in a BI claim.
- This ratio has been distorted by Covid-19. However, there was a **clear decrease from 2021 Q3 onwards due to the whiplash reforms**.
- Since 2021 Q3, the ratio has generally decreased further, suggesting that the **reforms have had a lasting impact on small BI claims**.
- The exact saving from the whiplash reforms is difficult to quantify due to the Covid-19 distortions and general decreases in accident frequency. However, all else being equal, **we estimate that the whiplash reforms have reduced BI burning costs by around £15 to £20 per policy per annum**.

Source: 2024 Q2 and prior frequencies are based on claims data from the ABI

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.

Burning cost



Key highlights

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

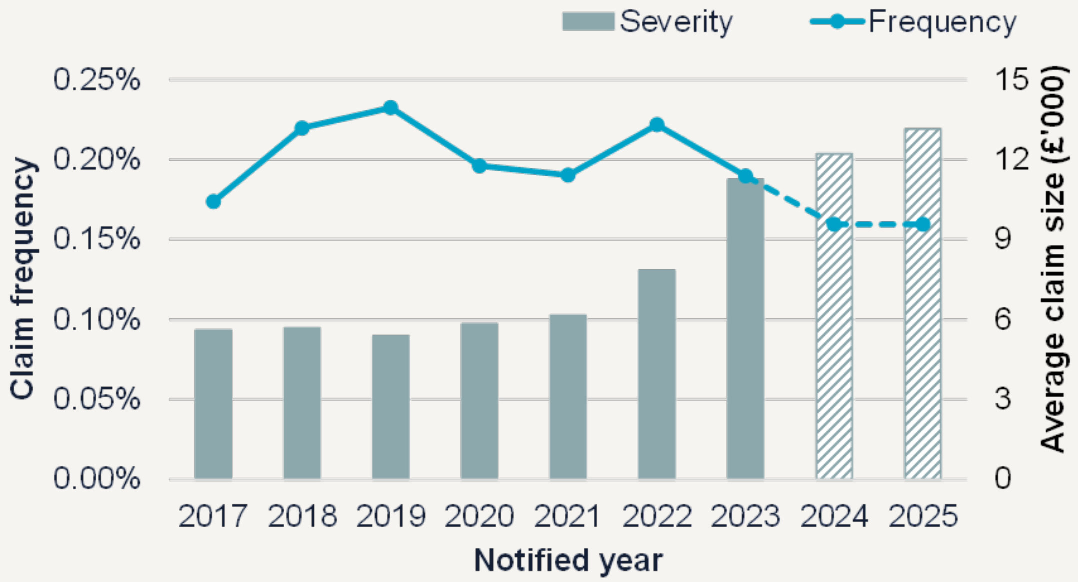
Frequency reducing in 2024 leading to lower burning cost.

We expect an **increase in burning cost in 2025** (+8%) due to an expected levelling-off of claim frequency and continued severity inflation.

Source: 2024 Q2 and prior incurred burning costs are based on claims data from the ABI

Motor – theft

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2023	-14%	+44%	+23%
2024	-16%	+8%	-9%
2025	0%	+8%	+8%

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.
- Vehicle theft frequency decreased in 2023, and this has continued into 2024 as manufacturers have responded with **increased security measures**.
- Although we are projecting further drops in theft frequency in 2024, we don't consider this trend to be sustainable and therefore we are **assuming broadly flat claim frequency into 2025**.

Severity

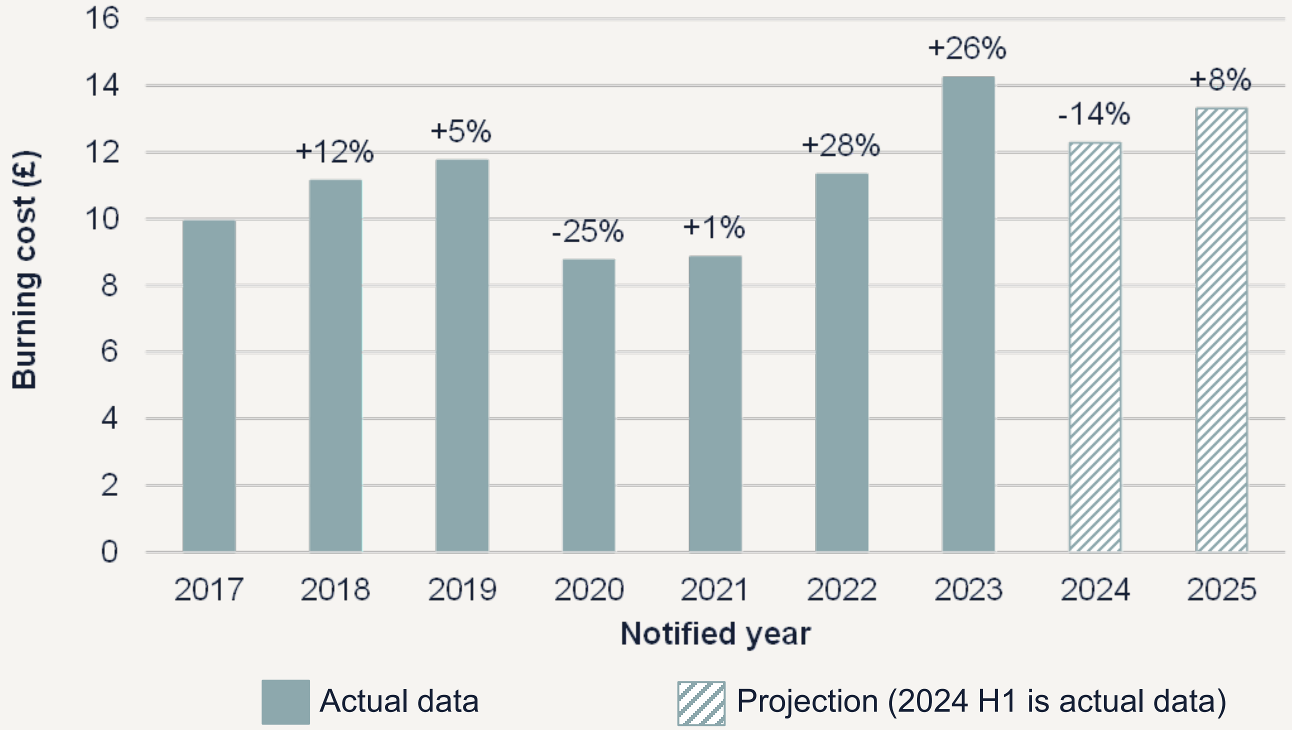
- The increased claim severity in 2022 and 2023 was driven by factors including the **targeting of high-value vehicles**, **expensive second-hand car markets and high inflation on parts for repair**.
- Our projections assume that **claim severity inflation returns to more normal levels** going forward. We assume that severity inflation for theft claims will be 5% pa higher than CPI.

Source: 2024 Q2 and prior frequencies, severities and burning costs are based on claims data from the ABI

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.

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**.

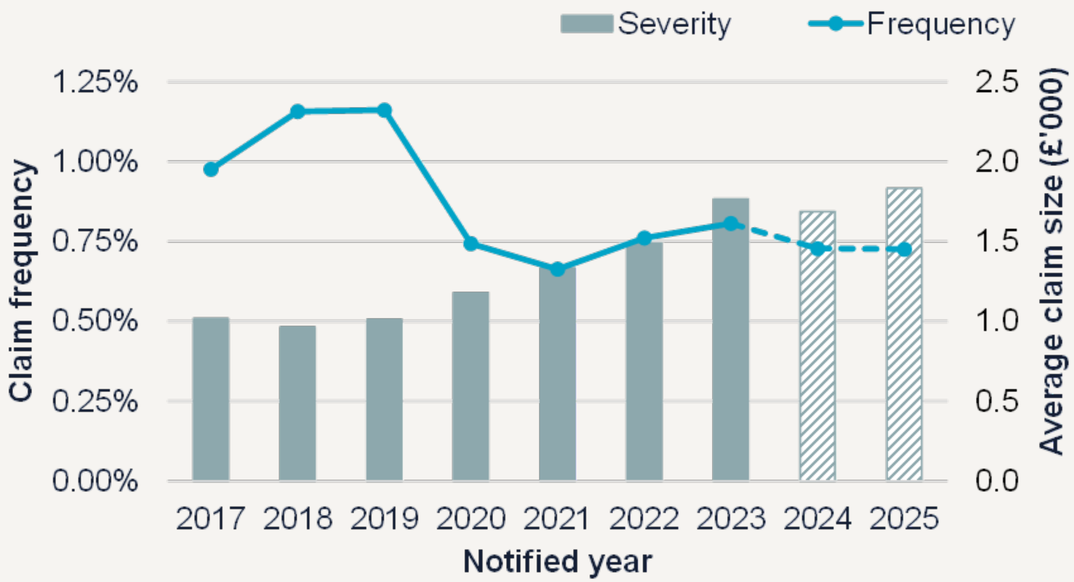
Reduction in burning cost in 2024 due to **lower claim frequency and easing of supply chain disruptions**, resulting in quicker repair times.

Increase in burning cost in 2025 (+8%) due to assumed levelling-off of claim frequency and continued severity inflation.

Source: 2024 Q2 and prior incurred burning costs are based on claims data from the ABI

Motor – replacement vehicle

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2023	+6%	+19%	+26%
2024	-10%	-4%	-14%
2025	0%	+9%	+8%

Frequency

- Like AD and TPD, the **frequency of RV claims decreased significantly in 2020** due to the Covid-19 pandemic.
- **Frequency remains significantly lower than pre-Covid levels** due to the reduced accident frequency. In addition, the shift towards more flexible working may mean less need for a replacement vehicle in some repairs.
- Despite the slight decrease in frequency in 2024, we are assuming **broadly flat frequency into 2025**, consistent with our assumptions for AD and TPD.

Severity

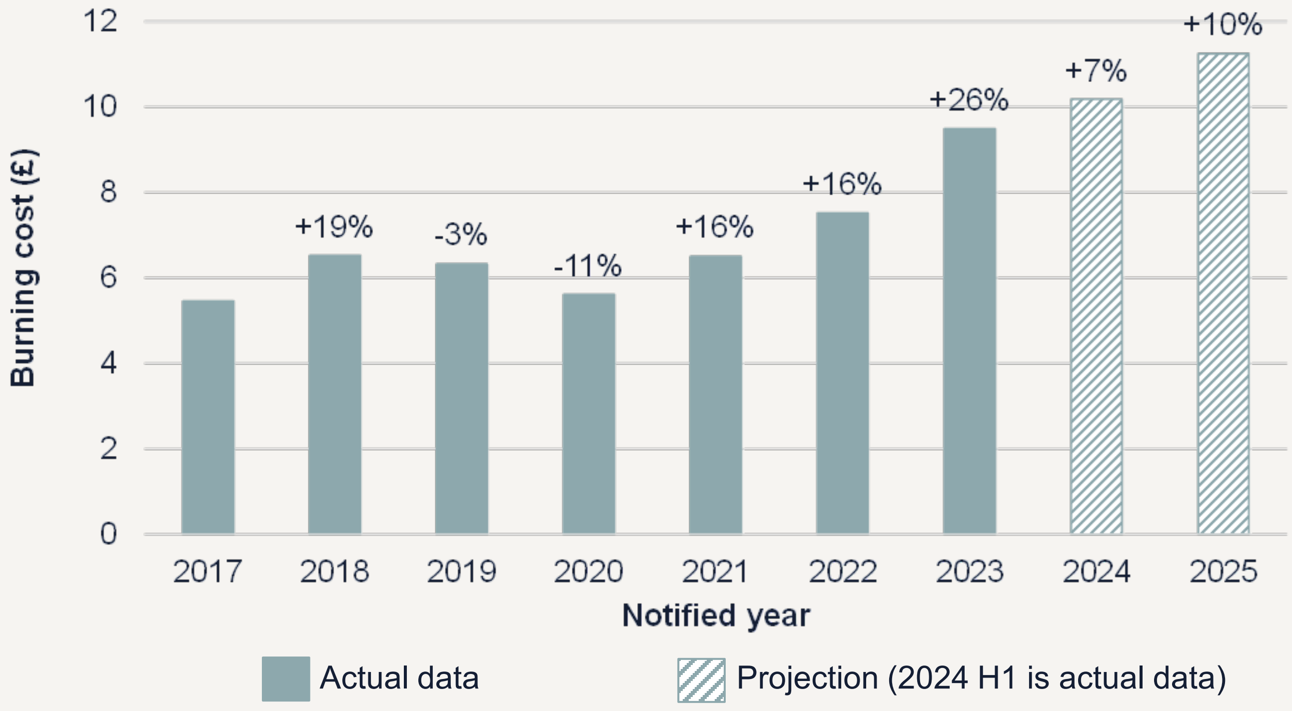
- Claim severity has been high in recent years, with costs to insurers exacerbated by **significant delays in repair times** due to supply chain disruptions and a shortage of skilled labour.
- **Claim severity has decreased into 2024** with supply chains stabilising and reduced delays in repair times.
- We are assuming that this decrease is a one-off and that **claim severity will continue to increase**, with severity inflation 6% pa higher than CPI.

Source: 2024 Q2 and prior frequencies, severities and burning costs are based on claims data from the ABI

Motor – windscreen

Windscreen claims represent a relatively small portion of total costs, with burning cost for 2023 less than £10 per vehicle year. However, the cost of repairs has become increasingly expensive in recent years, and we expect this trend to continue.

Burning cost



Key highlights

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

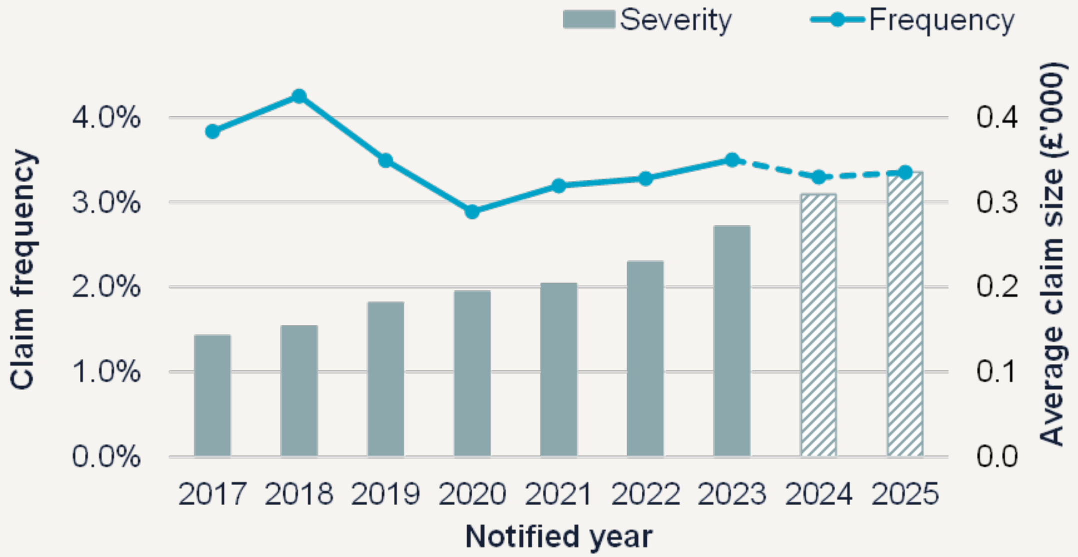
The strong increasing trend in burning cost is driven by severity inflation, due to **increasing use of technology in windscreens**.

We expect **higher burning cost inflation in 2025** (+10%) with slight increases in claim frequency and continued severity inflation.

Source: 2024 Q2 and prior incurred burning costs are based on claims data from the ABI

Motor – windscreen

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2023	+7%	+18%	+26%
2024	-6%	+14%	+7%
2025	+2%	+9%	+10%

Frequency

- **Windscreen claims were less impacted by Covid-19** than other heads of damage.
- Claim frequency has been relatively flat since 2021 and we are assuming a **marginal increase in frequency (+2%) into 2025**.

Severity

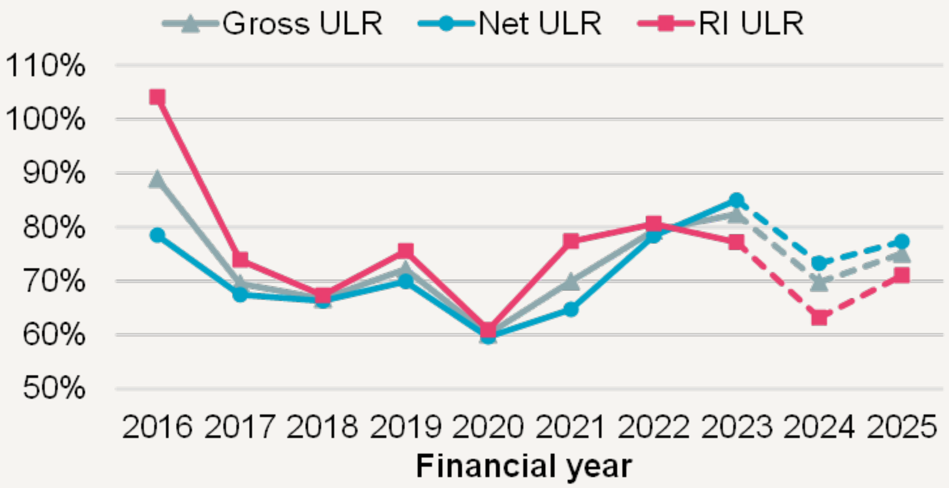
- **Claim severity inflation has been relatively high** driven by the increasing use of technology in windscreens, making repairs significantly more expensive.
- **Severity inflation** has also been driven by high levels of general price inflation (affecting the cost of replacement windscreens) and wage inflation (affecting the cost of repair work).
- Our projections assume that **claim severity inflation returns to more normal levels**. We assume that severity inflation for windscreen claims will be 6% pa higher than CPI.

Source: 2024 Q2 and prior frequencies, severities and burning costs are based on claims data from the ABI

Motor – allowing for reinsurance and expenses

Netting down for reinsurance

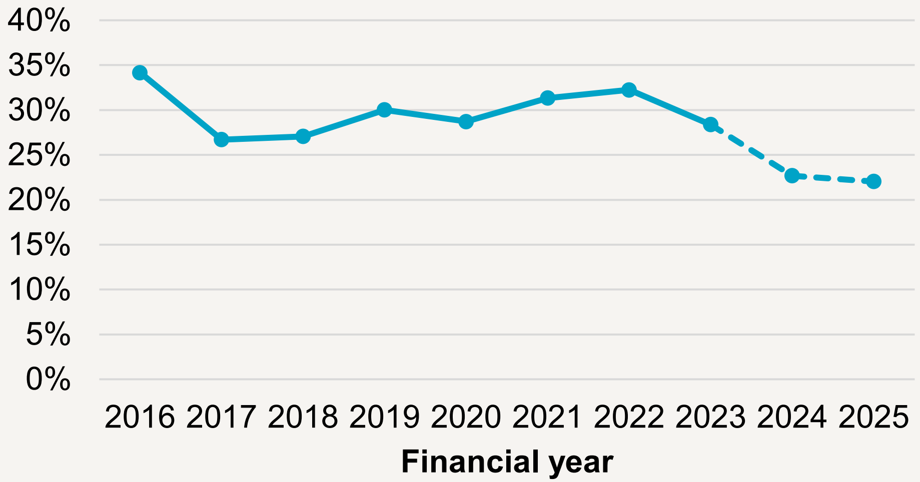
Net and gross loss ratios



- Typically, we expect net loss ratios to be higher than gross due to profit ceded to reinsurers. However, this has been **distorted by Covid-19 and PIDR changes** (eg 2016 reinsurer loss ratio particularly high due to the decrease in PIDR from 2.5% to -0.75%).
- We are expecting reinsurer loss ratios to be relatively low in 2024 as **excess of loss reinsurance will benefit the most from an increase in the PIDR**.

Expenses

Expense ratio (net of reinsurance)



- Insurers' expenses increased in 2023, but the **overall expense ratio reduced because of higher premiums**.
- The significant increases in premiums over 2023 will predominantly benefit the 2024 financial year, and we are **forecasting significantly lower expense ratios in 2024 and 2025** as a result.

Source: 2023 & prior loss and expense ratios based on motor direct business reported in SFCRs

Motor – prior year reserve releases

Background

Prior year reserve releases are a significant contributor to the combined ratio. For example, at a market level:

- **2021** – insurers generally took the opportunity to **strengthen prior year reserves** following the significant savings during Covid-19.
- **2022/23** – accident year loss ratios on these years were very high due to high claims inflation and limited increases in premiums. **Insurers put through significant releases in prior year reserves** which helped improve reported performance in both 2022 and 2023.

Expectations for 2024 and 2025

We are assuming lower releases in 2024 and 2025 relative to 2023. This is because:

- **Underlying accident year loss ratios have improved** following significant increases in premiums, and therefore there is less need to release prior year reserves to support results.
- Following the large releases in 2022 and 2023, there is **likely to be less margin remaining** in prior year reserves.

Allowance for PIDR changes

We have included an explicit allowance for a prior year reserve release in 2024 from changes to the PIDR (which we are assuming to be +0.5% in England and Wales).

Motor – PIDR

The personal injury discount rate (PIDR) is a key element in determining the lump sum compensation received by injured claimants.

The PIDR is set separately in the three different legal jurisdictions.

Scotland and Northern Ireland

New PIDRs for Scotland and Northern Ireland (NI) were published on 26 September 2024. The rates were updated as follows:

- **Scotland: PIDR increased from -0.75% to +0.5%**
- **Northern Ireland: PIDR increased from -1.5% to +0.5%**

> *Based on the typical proportions of costs affected by the discount rate, we estimate that this would translate to reductions in annual motor insurance premiums of c.£13 in Scotland and c.£25 in NI.*

Actual premium movements may be lower than this, as insurers may already have priced in some of the change ahead of the announcements.

Scotland – key drivers of movement in PIDR

The change in rate breaks down as follows:

- 2% increase in assumed investment returns – driven by significant improvements in investment market conditions since 2019.
- 0.5% reduction due to larger adjustment for tax and expenses (0.75% -> 1.25%).
- No change to the "further margin" of 0.5% – this margin is to improve the likelihood of the claimant having sufficient funds to meet their future costs.
- 0.25% reduction due to assumed higher damages inflation.

Northern Ireland – key drivers of movement in PIDR

For NI, the main driver of change is also the change in assumed investment returns. The previous -1.5% PIDR was set in March 2022, at a time when prospective investment returns were particularly low and much lower than those at the time that the -0.75% rate in Scotland was set (September 2019). This is why the increase in assumed investment returns is significantly greater than for Scotland.

The movements in the other assumptions are all identical to those for Scotland.

Motor – PIDR

Implications for England and Wales

The PIDR in England and Wales is due to be published by 11 January 2025. The process for setting this rate is separate from those for Scotland and NI. Key differences include the following:

- The **rate is set by the Lord Chancellor based on advice from an Expert Panel**, which includes the Government Actuary. The rates in Scotland and NI are set solely based on advice from the Government Actuary.
- Some parameters (eg the tax and expenses adjustment), are prescribed when setting the Scotland and NI rates but in England and Wales are **within the remit of the Expert Panel**.
- The **investment portfolio assumed in the Scotland and NI reviews is slightly lower risk than was assumed in the England and Wales review in 2019**. All else being equal, this might suggest a slightly higher discount rate in England and Wales.

Given the key differences between the processes for setting the rates, there remains uncertainty in the next PIDR. **However, in our view it would be a surprise if the rate was set lower than the Scotland and NI rates**. The Lord Chancellor will undoubtedly have these rates in mind when setting the rate.

Our view remains that the likely range for the next PIDR will be a single rate of +0.5% to +1.0%.

Implications for England and Wales

Insurers awaiting the announcement should consider the following:

Review pricing – the recent announcements are likely to mean reductions in premiums in Scotland and NI, and this may also give some insurers impetus to put through slight reductions in premiums in England and Wales in advance of the PIDR announcement.

Prepare for a quick reserving turnaround at year end – the timing of the announcement, due by 11 January 2025, is likely to cause challenges for insurers around year-end financial deadlines. Firms will need to prepare results based on their view of the most likely new rate, whilst being able to update results swiftly if the new rate is different to that assumed.

Reinsurance renewals – linked to the above point, there will also be key challenges around 1 January 2025 reinsurance renewals. Even a small difference in rate could have a large impact on reinsurance premium rates.

Home projections

> *Currently, there are many challenges for UK home insurers to navigate and a proactive approach to claims trends is crucial.*
>
> **Annabel Carpenter, LCP**

Market performance - home

Gross average premiums

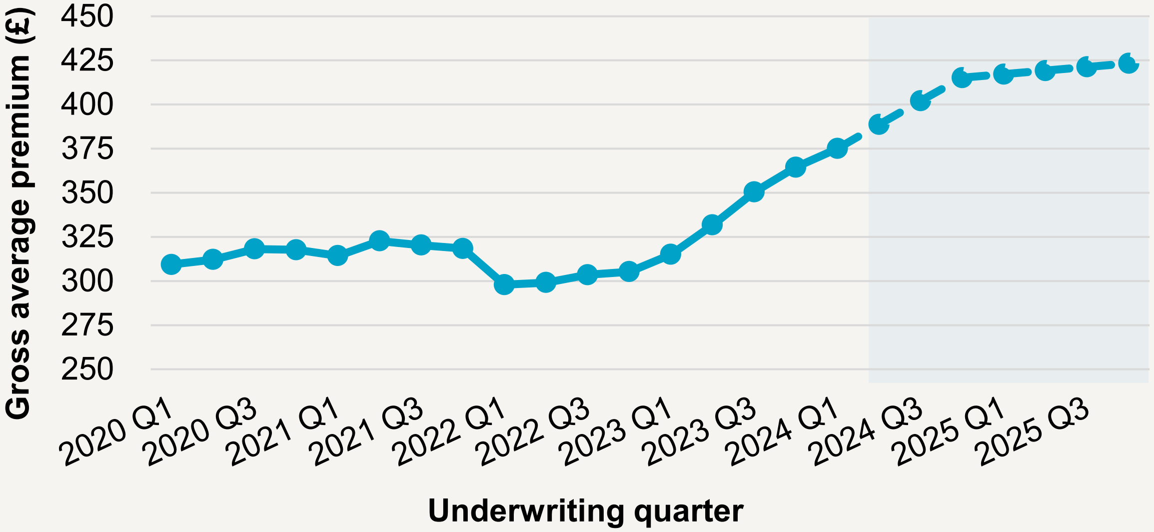
The home market has been hardening since Q1 2023, partly driven by the high inflationary environment since 2022. There are no clear signs of the market softening. However, we expect that the increasing trend will flatten off during 2025 as the inflationary shock works through.

The market potentially underestimated the extent to which inflation would hit claims costs over 2022 and 2023 and had to increase premium rates significantly in 2024 to catch up.

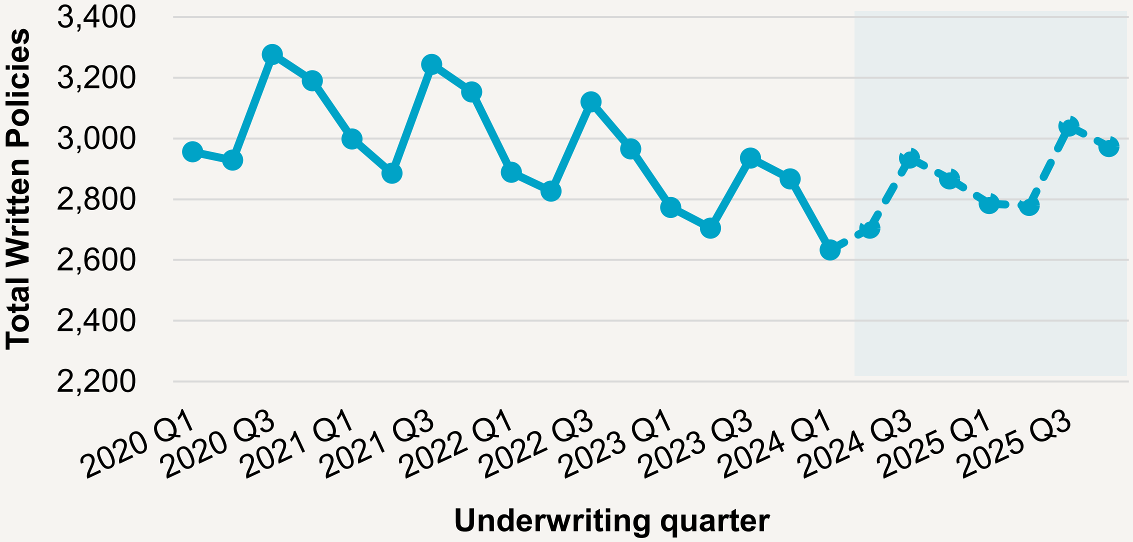
Total written polices

The market saw a decline in total written polices from the second half of 2022, most likely due to the cost-of-living crisis. Our projections assume that the market will revert to pre-2022 levels of coverage.

Gross average premiums



Total written polices

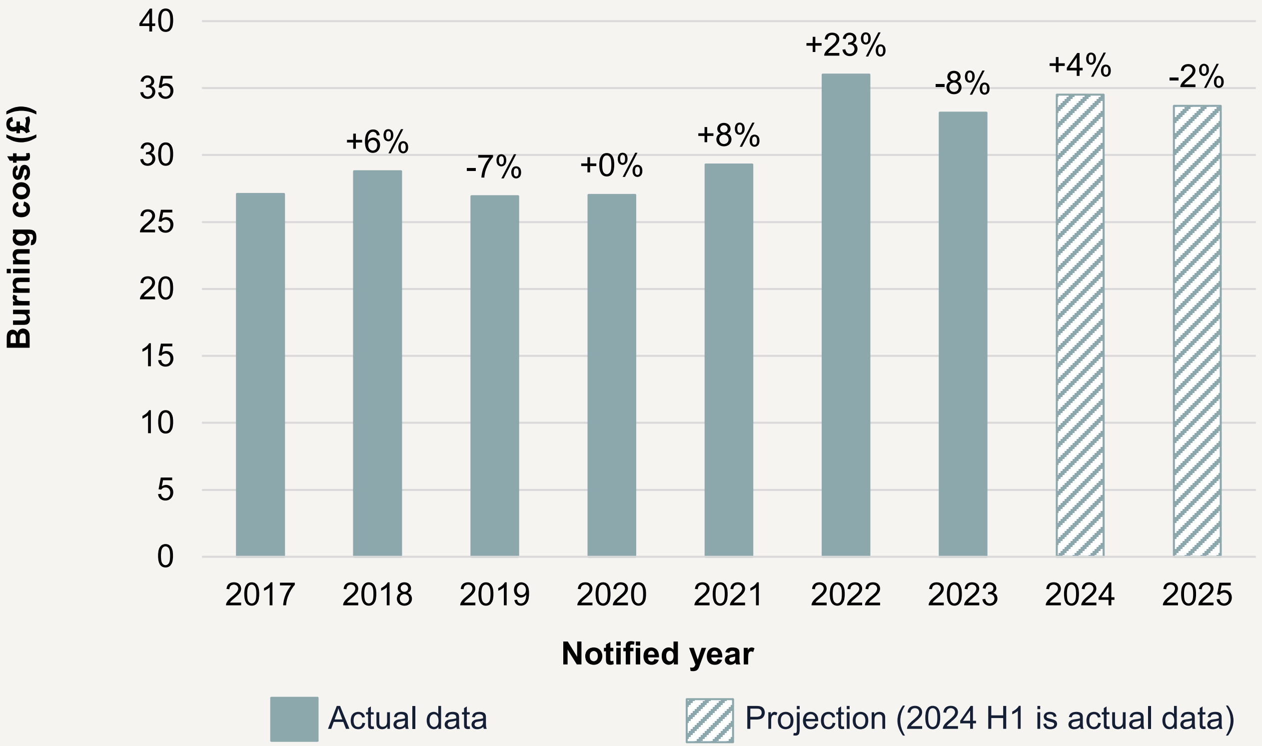


Source: 2024 Q2 and prior average premiums and written policies based on premium data from the ABI

Home – fire

The market saw a change in claims trends in 2020 with a slight increase in frequency and decrease in severity. Post-Covid, insurers are now navigating rising claims costs driven by increases in labour rates and alternative accommodation costs as well as high inflation in the construction industry

Burning cost



Source: 2024 Q2 and prior incurred burning costs are based on claims data from the ABI

Key highlights

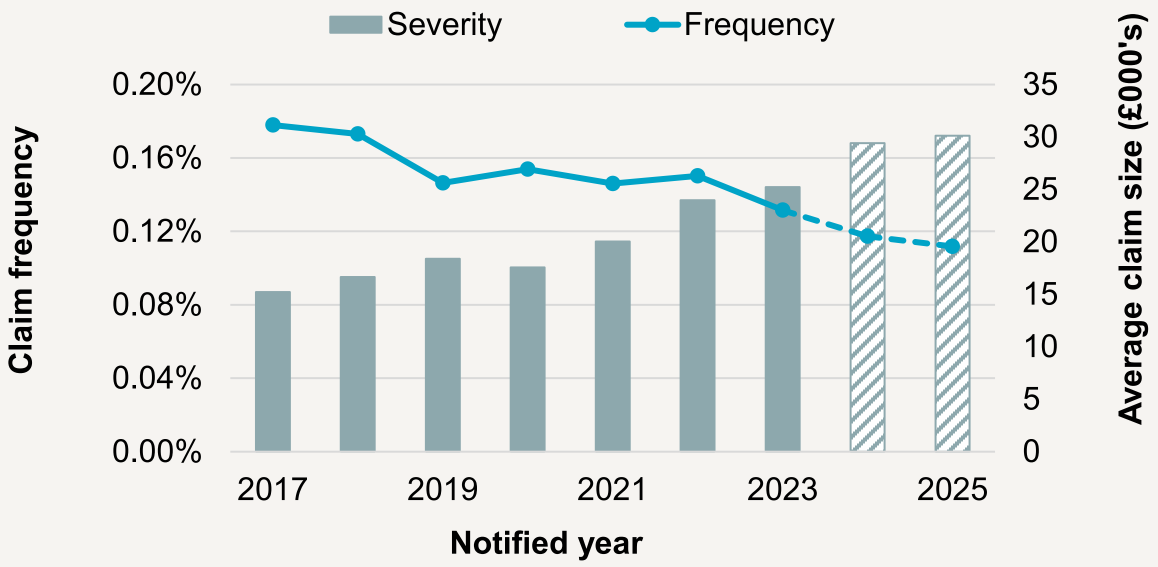
Overall, the market is experiencing an **increase in burning cost** inflation in 2024, driven by significant increases in claims severity. We expect a slight reduction in 2025, mainly driven by an expected decrease in frequency.

High severity inflation, significantly above the housing rebuild index. This is reflective of the sharp increases in both construction and alternative accommodation costs.

Improvements in fire safety regulations, improved consumer device safety and a decline in smoking have driven a **decreasing trend in frequency.**

Home – fire

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2023	-12%	+5%	-8%
2024	-11%	+17%	+4%
2025	-5%	+2%	-2%

Frequency

- Fire frequency has been steadily decreasing since 2017, most likely driven by improvements in cooking appliance safety and fire safety technology, as well as a reduction of the number of people smoking, particularly inside.
- During the Covid-19 lockdown years the market saw a slight increase in frequency due to increased risk of fires occurring while people were at home more. Additionally, 2020 and 2022 experienced particularly dry summers resulting in an uptick in the frequency of fires.
- We are expecting the long-term downward trend to continue into 2025.

Severity

- Severity has been **increasing** since 2017, with a significant step up in 2022.
- We are projecting the increasing severity trend to continue in 2024 H2 but to stabilise in 2025 as the high inflationary environment settles down.
- The main drivers of increased severity have been the above-CPI increases in both the cost of building materials and labour rates.

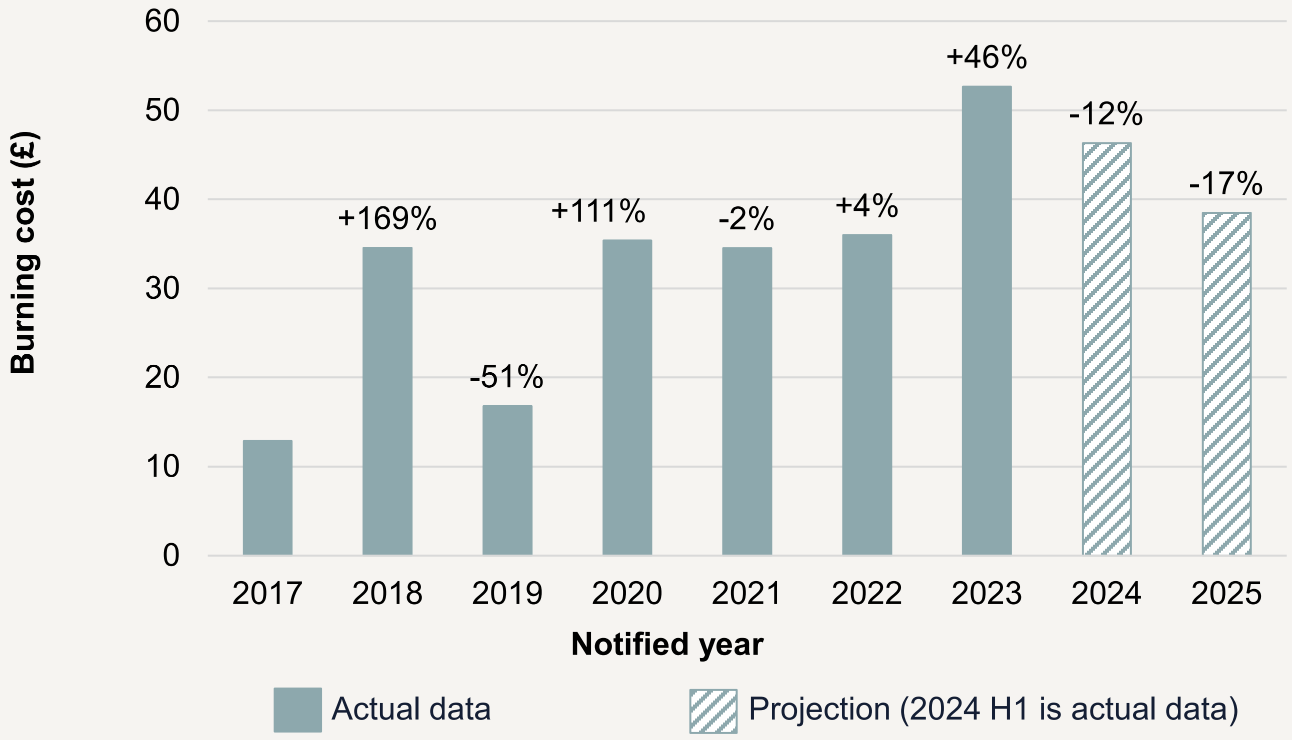
Source: 2024 Q2 and prior frequencies, severities and burning costs are based on claims data from the ABI

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.

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

Burning cost



Key highlights

Overall, **burning cost increased significantly in 2023** driven by high severity. Reductions in year-on-year burning cost in 2024 and 2025 reflect the atypical year in 2023. The high volatility seen in recent years may be indicative of the broader impacts of climate change.

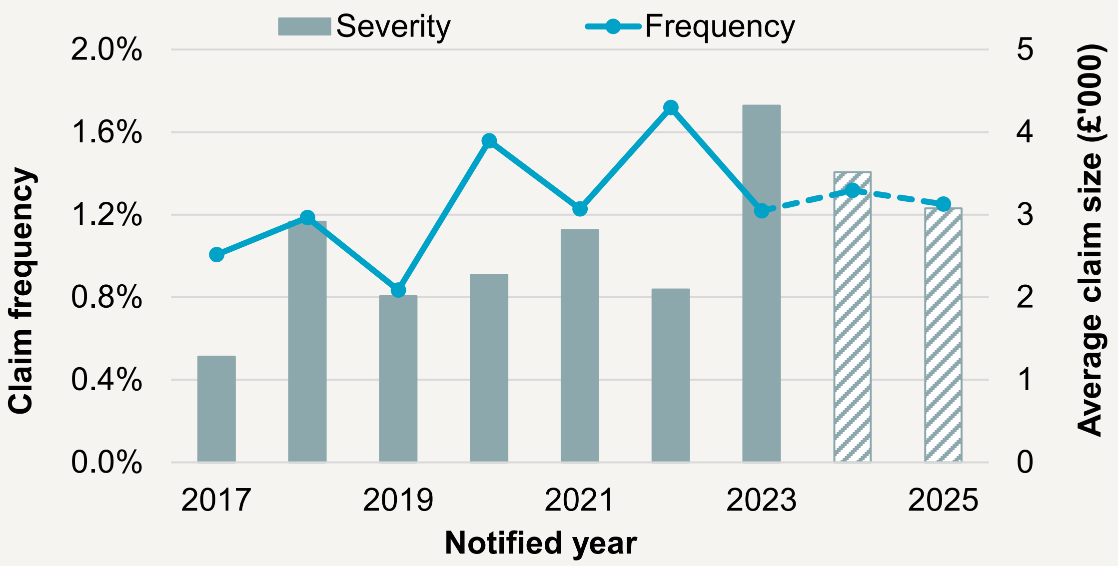
Our expectation is that **2024 severity remains high** but not at the level seen in the market in 2023. Our projections assume that 2025 will be more in line with 2022 and prior.

Frequency is highly volatile. Our projections assume a typical level of frequency over the second half of 2024 and 2025.

Source: 2024 Q2 and prior incurred burning costs are based on claims data from the ABI

Home – weather

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2023	-29%	+106%	+46%
2024	+8%	-19%	-12%
2025	-5%	-12%	-17%

Frequency

- In 2020 storms Ciara and Dennis created a peak in claims frequency.
- Storm Eunice in February 2022 was the most extreme windstorm to affect England and Wales since 2014. This also resulted in a spike in frequency.
- Experience has been adverse in 2024 Q1 and Q2. Our projections assume average frequency experience for the second half of 2024 and 2025.

Severity

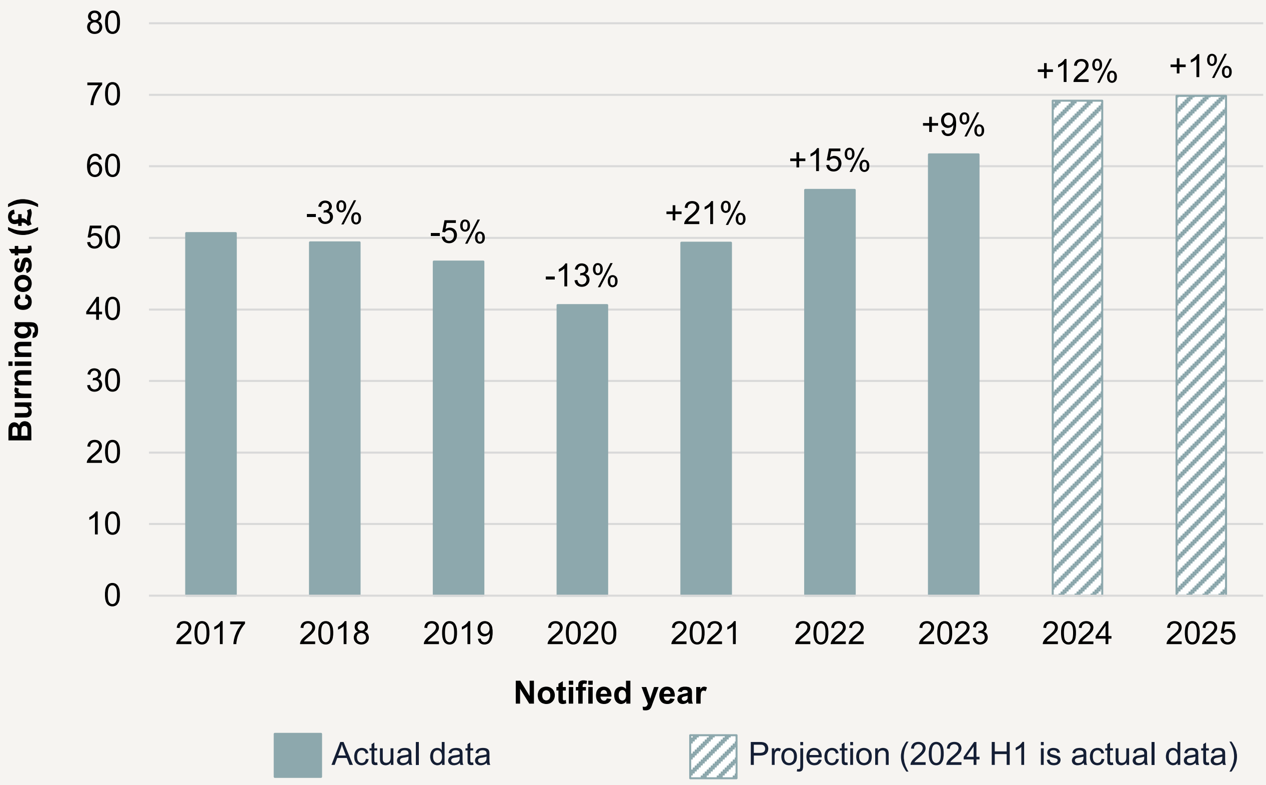
- There has been an overall upward trend in severity, with 2023 particularly adverse due to multiple weather events.
- We have assumed that the upward severity trend will continue into the second half of 2024 with a continued rise in alternative accommodation and construction costs. We have assumed average experience in our severity projection for 2025.
- Flood events typically have higher costs than windstorms due to the extent of damage and need for alternative accommodation.

Source: 2024 Q2 and prior frequencies, severities and burning costs are based on claims data from the ABI

Home – escape of water

After a period of stable severity and falling frequency, insurers are now navigating the high inflation challenges from escape of water (EoW) claims.

Burning cost



Key highlights

Burning cost has been **increasing significantly** since 2020 driven by sharp rises in severity.

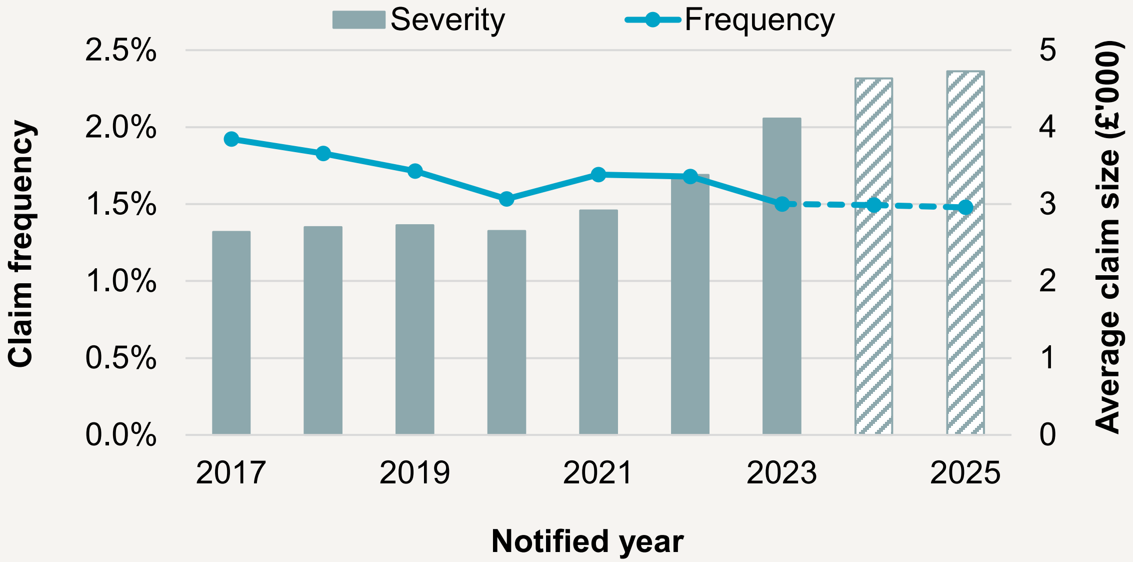
Supply issues in the plumbing and construction sectors as well as rising material costs are driving **significant severity inflation.**

Frequency remains **stable** following a post-Covid spike.

Source: 2024 Q2 and prior incurred burning costs are based on claims data from the ABI

Home – escape of water

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2023	-11%	+22%	+9%
2024	-1%	+13%	+12%
2025	-1%	+2%	+1%

Frequency

- EoW frequency reduced between 2017 and 2020. This may be due to improvements in plumbing and building standards, for example isolation techniques and leak detection technology.
- In 2021 there was an uptick post-Covid, potentially as a result of an increase in DIY home improvements.
- In 2023 the market reverted to pre-Covid frequency, which we expect to continue.

Severity

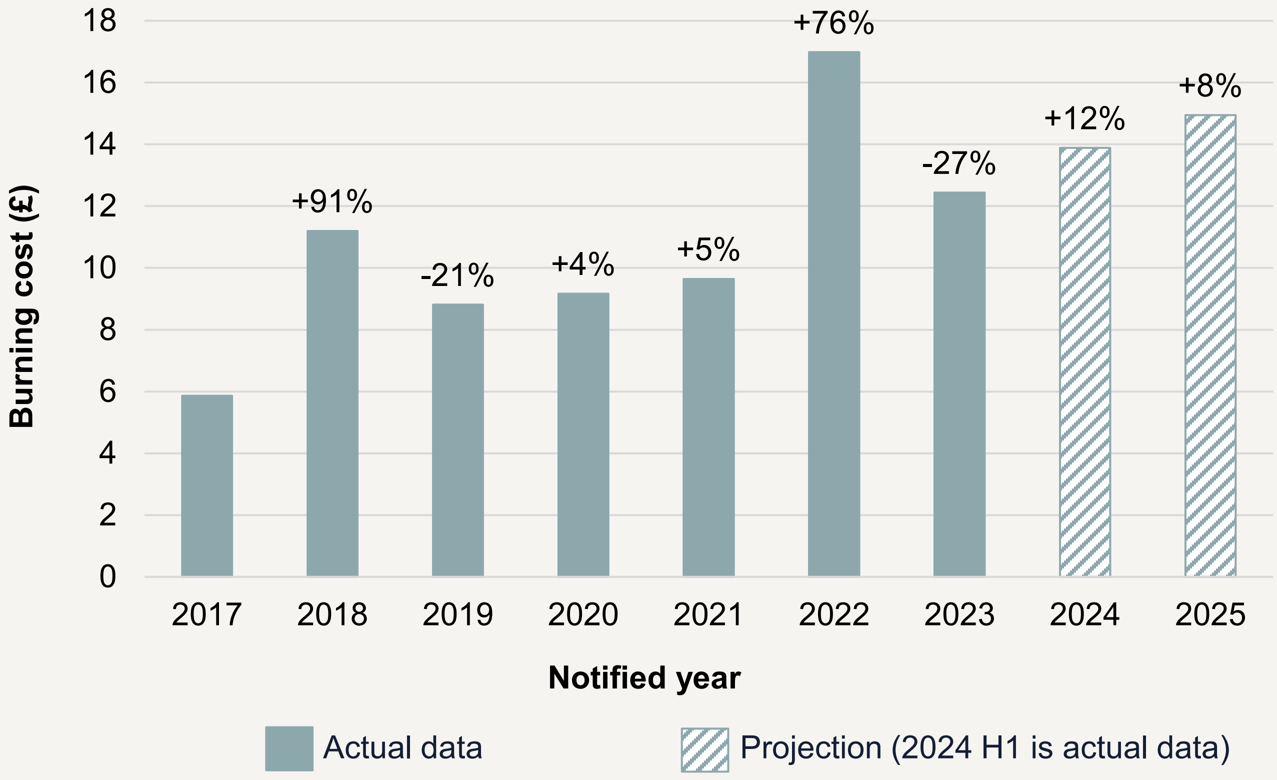
- The market has seen sharp year-on-year increases in severity since 2020, with 2024 continuing this trend. Key drivers include supply chain issues, rising building material costs and increases in labour rates. Growing complexity of buildings and higher property values are exacerbating these challenges.
- We have assumed that this trend will continue in 2024 but stabilise in 2025 reflecting softening inflation.

Source: 2024 Q2 and prior frequencies, severities and burning costs are based on claims data from the ABI

Home – subsidence

The impacts of climate change contribute to greater subsidence risk. More frequent and severe droughts along with wetter winters can lead to cycles of soil expansion and contraction which stress building foundations.

Burning cost



Key highlights

There has been a general increasing trend in burning cost year on year since 2017.

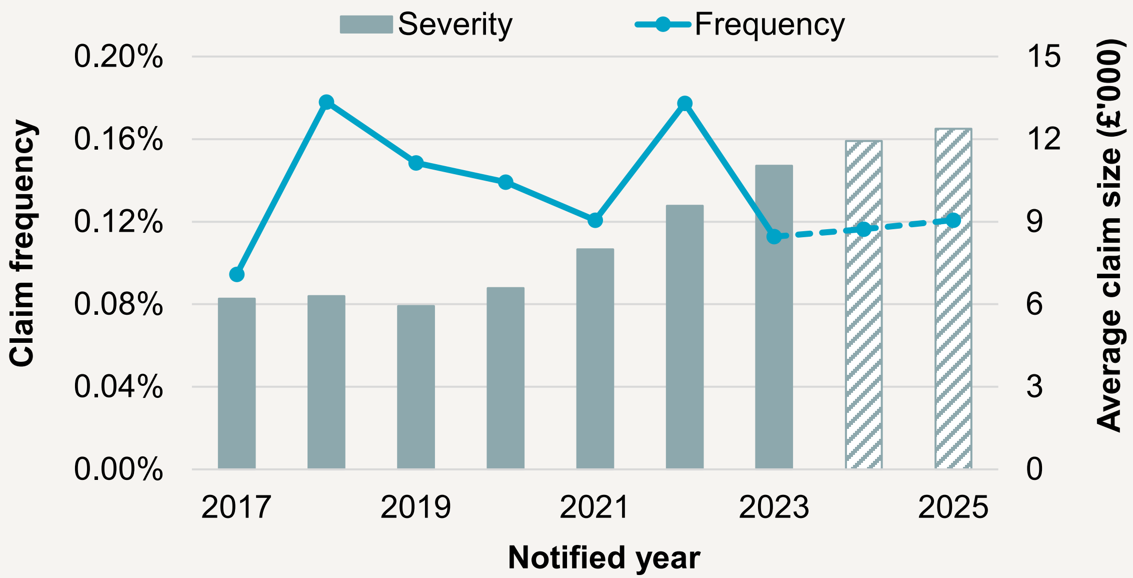
The market has seen **high increases in severity** reflecting the inflationary pressures in the UK construction industry as well as more complex repairs.

Subsidence **frequency can be highly volatile.** For the purpose of our projections, we assume that 2024 and 2025 will be average years.

Source: 2024 Q2 and prior incurred burning costs are based on claims data from the ABI

Home – subsidence

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2023	-36%	+15%	-27%
2024	+3%	+8%	+12%
2025	+4%	+4%	+8%

Frequency

- Subsidence frequency is highly correlated with weather conditions, with prolonged dry spells increasing the risk of subsidence.
- 2024 has not seen significant dry spells and we are therefore expecting an average frequency year. We have made the same assumption for 2025.

Severity

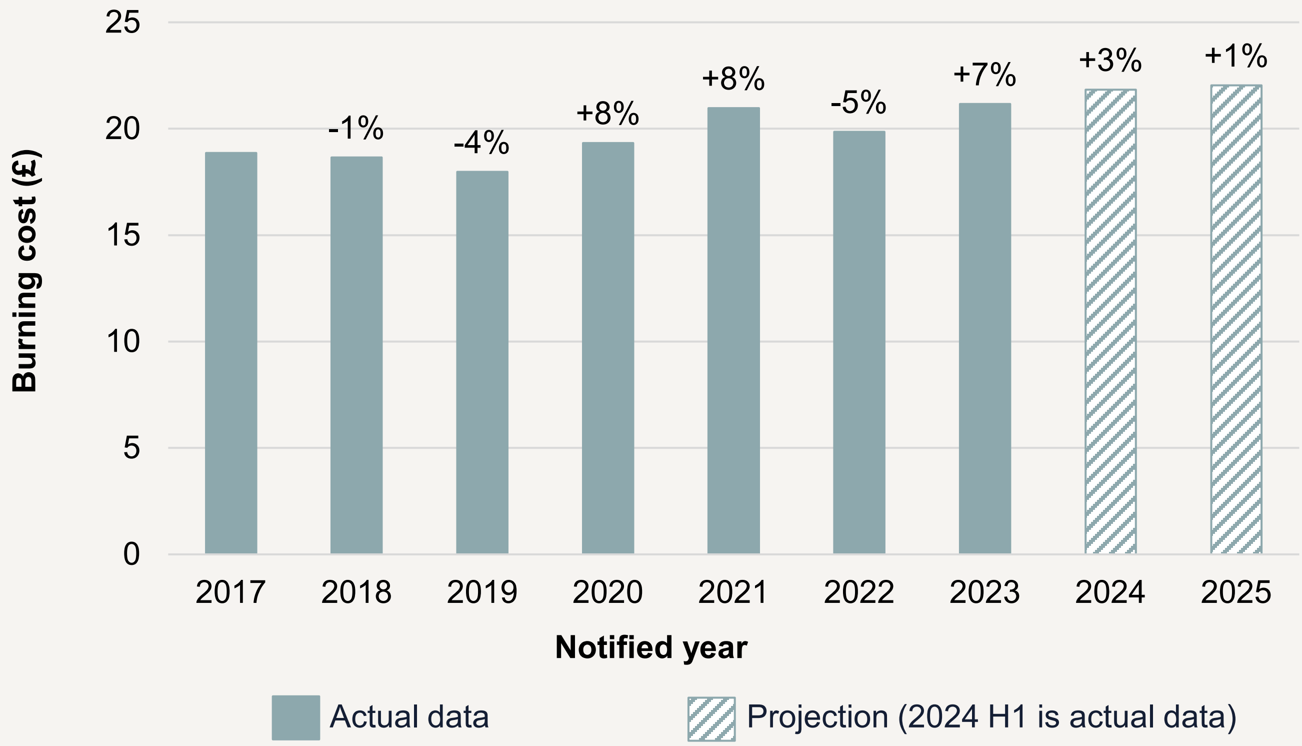
- Subsidence severity has been increasing since 2019 with rising repair costs, ageing UK housing stock and more frequent and severe weather events driving up average costs. The inflationary pressures on subsidence claim costs are similar to those on fire and EoW.
- While we consider the 2024 accident year to be a continuation of this trend, our projections assume that this will flatten off in 2025. In practice, experience will be dependent on weather conditions, building material inflation and labour rates.

Source: 2024 Q2 and prior frequencies, severities and burning costs are based on claims data from the ABI

Home – accidental damage

Inflation is the key current challenge on accidental damage claims.

Burning cost



Key highlights

The downward trend in frequency has broadly dampened the upwards trend in severity.

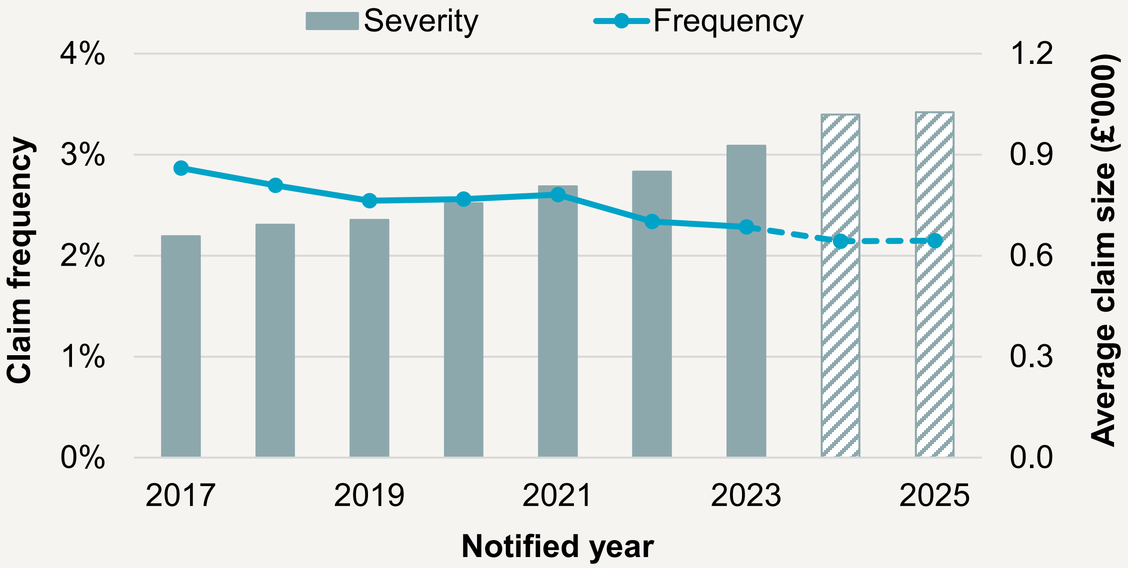
The long-term **increasing severity** trend has continued in 2024. We expect this to flatten in 2025, reflecting softening price inflation.

Claims frequency increased during Covid but has since **returned to a reducing trend.**

Source: 2024 Q2 and prior incurred burning costs are based on claims data from the ABI

Home – accidental damage (continued)

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2023	-2%	+9%	+7%
2024	-6%	+10%	+3%
2025	+0%	+1%	+1%

Frequency

- Frequency has been decreasing since 2017 despite a slight increase during Covid lockdowns. A potential driver of the downward trend is a decrease in propensity to claim because of the cost of excesses and policyholder concerns over the impact on future premiums.
- We expect this trend to continue in 2024 but flatten off in 2025.

Severity

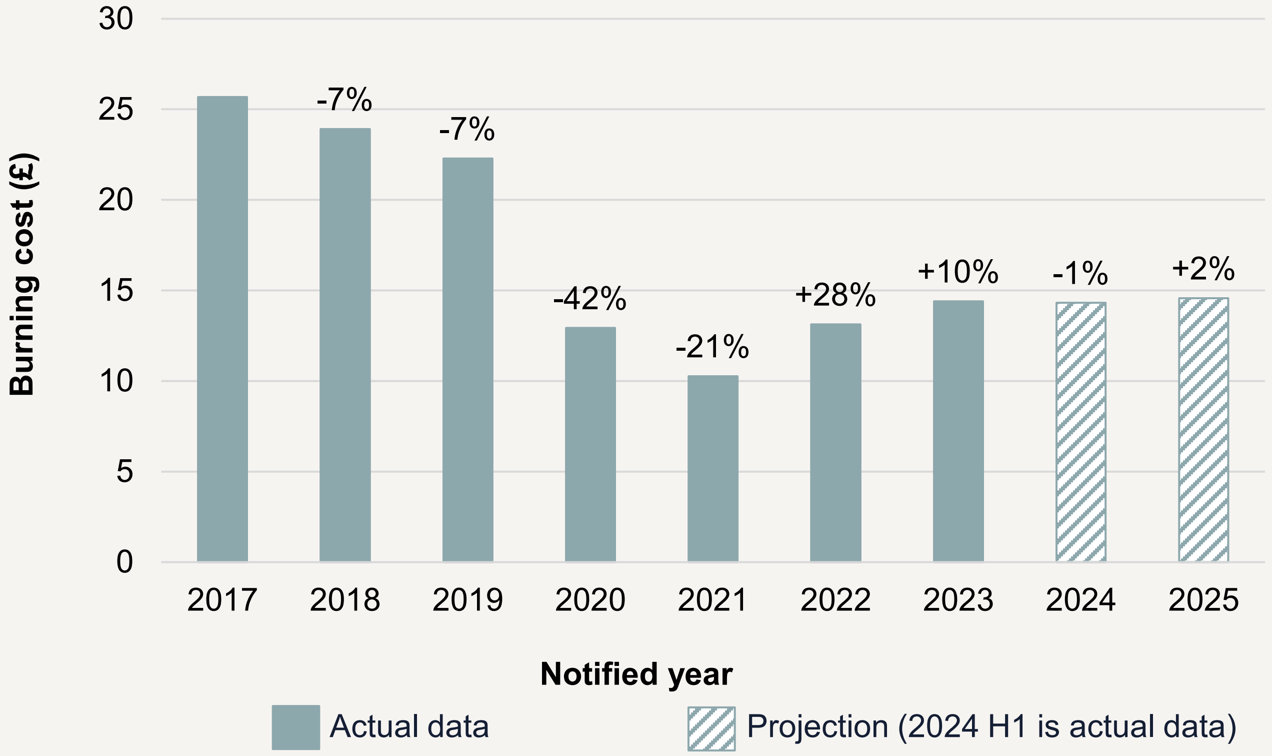
- Severity has been increasing since 2017 with steeper year-on-year increases from 2020. This reflects the trend in UK inflation, coupled with the mix of claims shifting to more higher value claims.
- We have assumed this trend will flatten off in 2025 as inflationary pressures ease.

Source: 2024 Q2 and prior frequencies, severities and burning costs are based on claims data from the ABI

Home – theft

Increases in claims severity for theft are driven by price inflation. Additionally, the economic outlook could result in a change in mix of theft claims which could become problematic for insurers.

Burning cost



Key highlights

Burning cost increased significantly in 2022 and 2023, driven by severity. Our projections assume that this stabilises in 2024 and 2025.

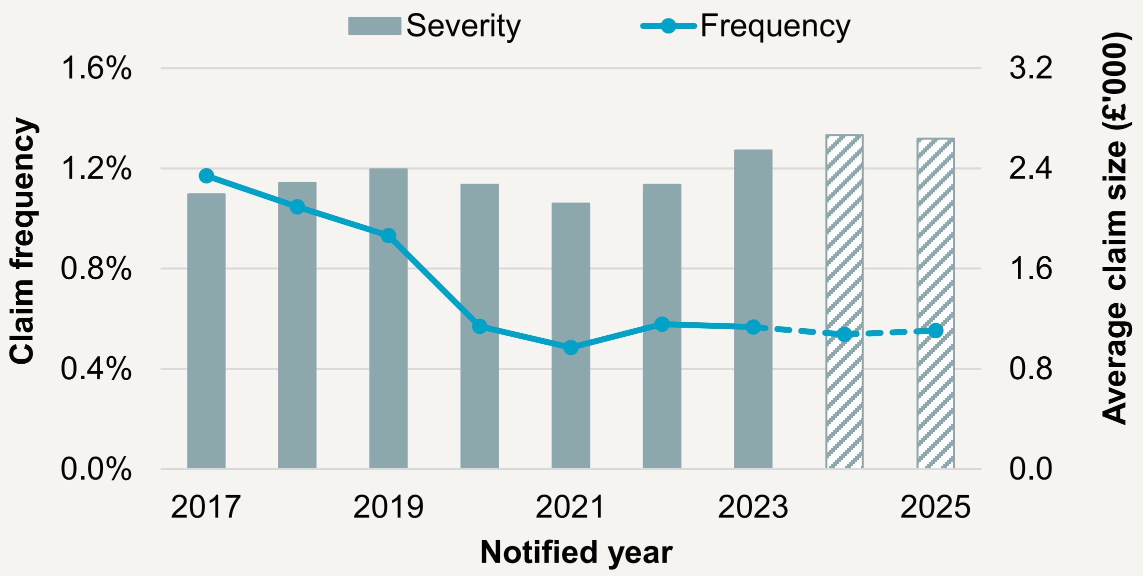
There has been an **increasing trend in severity** since 2021 which has continued into 2024.

Following a sharp fall in 2020, frequency has **been steadily declining since 2022.**

Source: 2024 Q2 and prior incurred burning costs are based on claims data from the ABI

Home – theft

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2023	-2%	+12%	+10%
2024	-5%	+5%	-1%
2025	+3%	-1%	+2%

Frequency

- Following the significant decrease during Covid lockdowns in 2020, frequency increased in 2022 before returning to a declining trend in 2023 and 2024.
- We have assumed a relatively flat frequency trend into 2025.

Severity

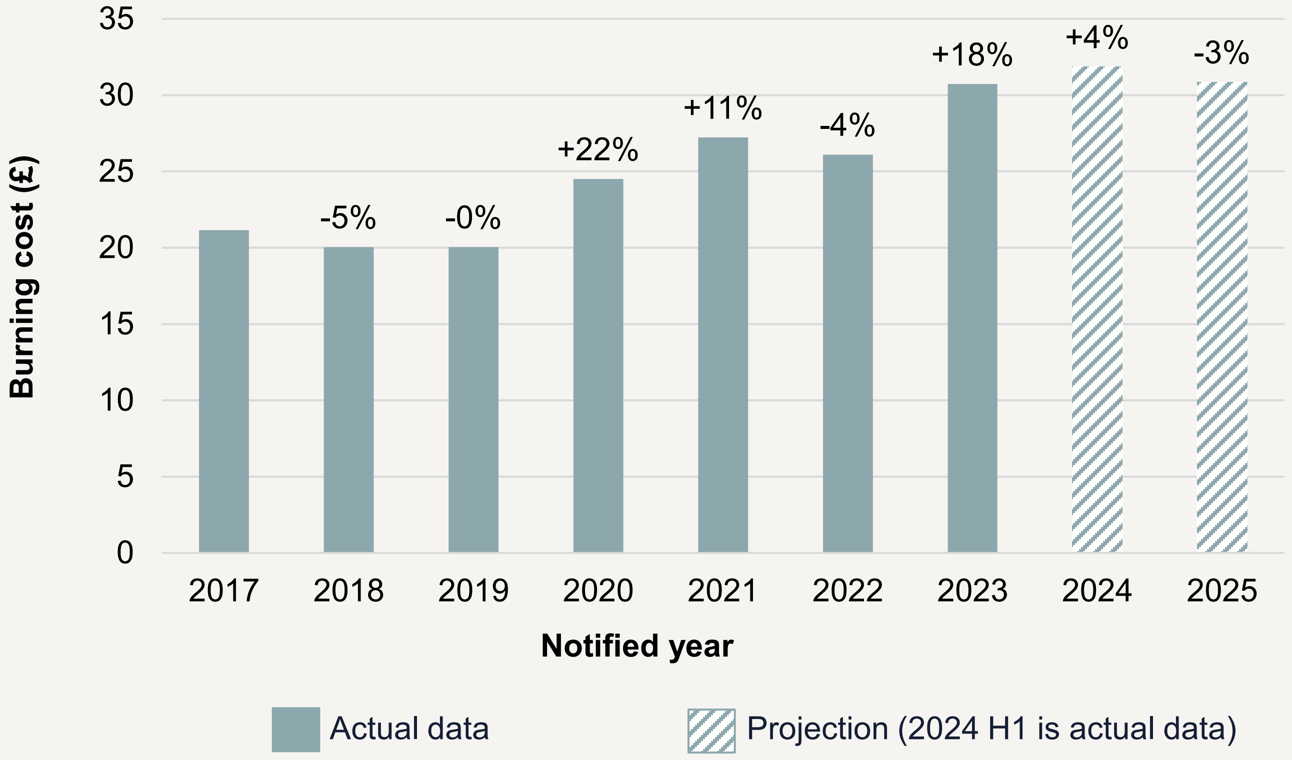
- Severity has been trending upwards since 2021 reflecting inflationary pressures.
- Q1 and Q2 2024 saw an uptick in severity, due to an increase in crime rates, particularly burglaries, as well as higher value items being targeted.

Source: 2024 Q2 and prior frequencies, severities and burning costs are based on claims data from the ABI

Home – other

This peril includes all other claims that could be made on a home policy, for example liability, escape of oil, weight of snow and freezer contents.

Burning cost



Key highlights

Burning cost has generally been increasing since 2019, driven by severity inflation.

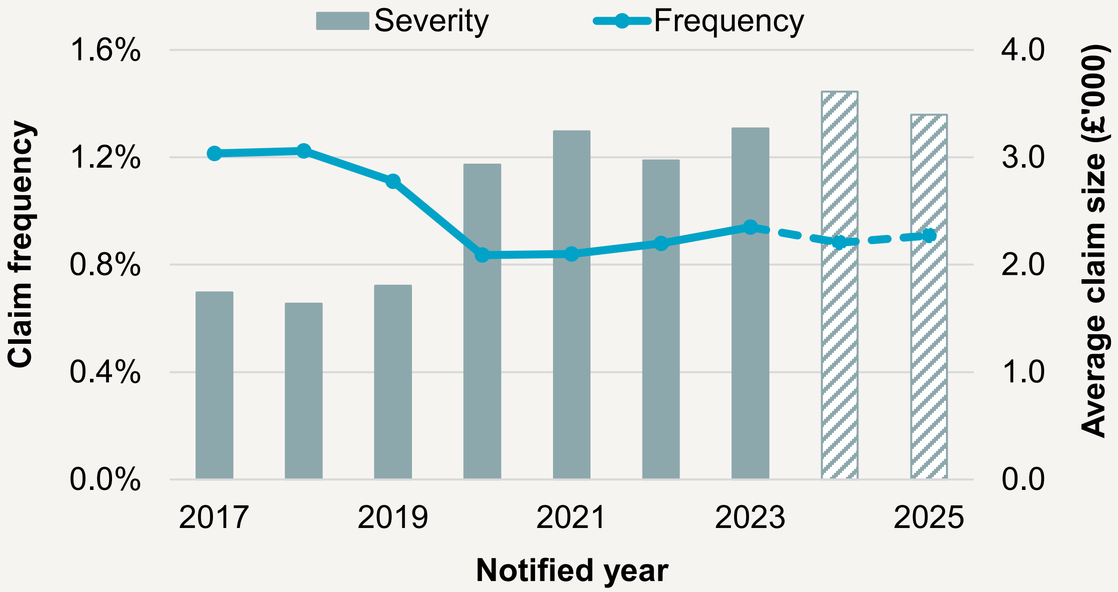
Severity has been increasing in recent years. We expect this trend to flatten in 2025 with the softening of inflation.

After a period of increasing frequency, the market is showing a broadly **stable trend in frequency**.

Source: 2024 Q2 and prior incurred burning costs are based on claims data from the ABI

Home – other

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2023	+7%	+10%	+18%
2024	-6%	+10%	+4%
2025	+3%	-6%	-3%

Frequency

- The market saw a slight upward trend from 2020 to 2023. We expect 2024 frequency to be closer to that in 2022.
- We have assumed frequency will remain broadly stable in 2025.

Severity

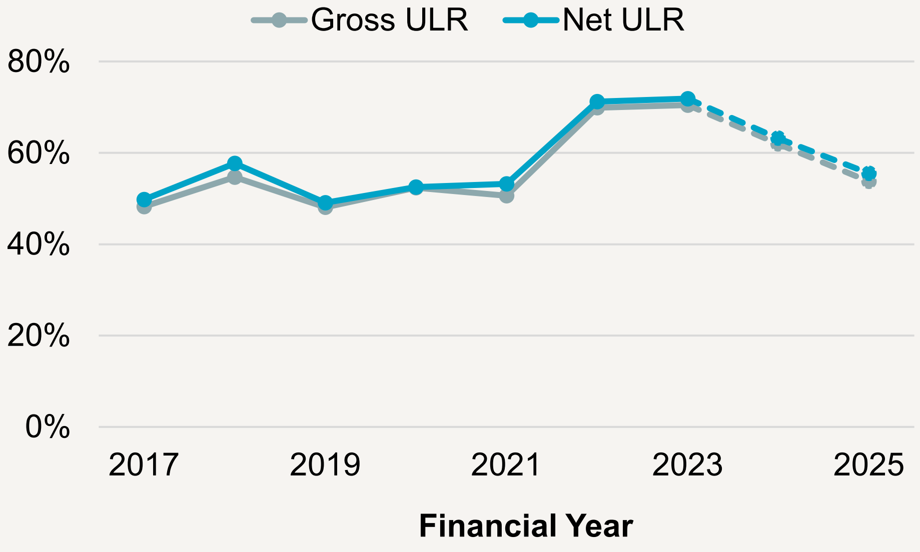
- Severity has trended upwards since 2018 with a notable step up in 2020.
- We have projected the increasing trend in severity to continue into 2024 but to flatten off in 2025 as inflation eases.

Source: 2024 Q2 and prior frequencies, severities and burning costs are based on claims data from the ABI

Home – other factors affecting the combined ratio

Netting down for reinsurance

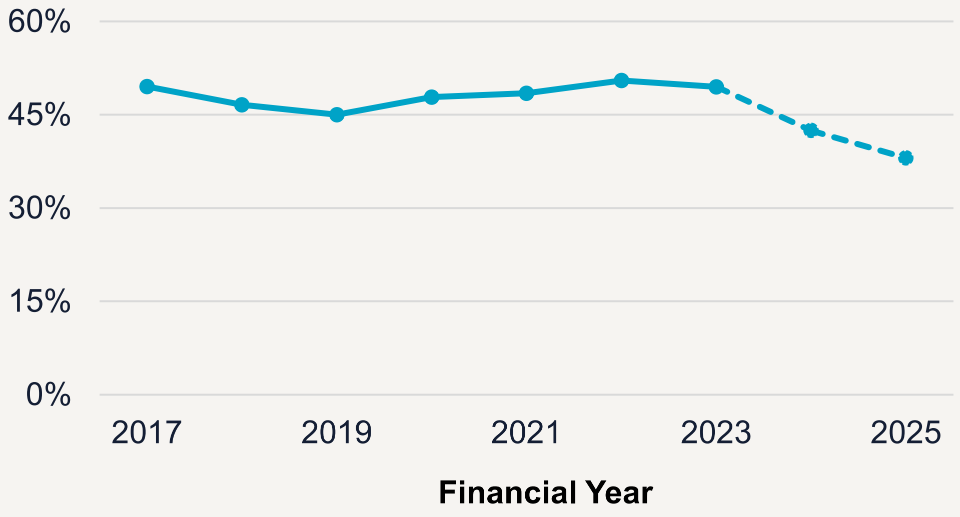
Net and gross loss ratios



We expect gross and net loss ratios to come down in 2024 and 2025 as the market continues to harden over 2024 coupled with softening inflation.

Expenses

Expense ratio (net of reinsurance)



- We expect to see an improvement in expense ratios in 2024 and 2025 due to further increases in premiums.
- We have not explicitly allowed for reserve releases on home business. These are typically much less material than for motor, given the shorter-tail nature of the business.

Source: 2023 & prior loss and expense ratios based on motor direct business reported in SFCRs

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