

► **SME: 'Now and the Future'** examines how the SME market, across all sectors, is changing and developing. The monthly series, sponsored by Zurich as it adds new products to its SME proposition, will run for the next year. Stay tuned for the most up-to-date SME knowledge.



# Focus on small fleet

Technology is radically changing the way brokers should be approaching finding cover for commercial cars and vehicles, explains **Edward Murray**

In recent years there has been strong growth in the number of commercial cars and vehicles on the UK's roads and this has been matched by insurers' appetite to underwrite them.

According to the Society of Motor Manufacturers and Traders the number of van registrations in the first 10 months of 2016 outperformed any other year on record. If, therefore, the economy remains buoyant in these uncertain times, the commercial car and vehicle market should provide a growing universe to underwrite, although there are challenges to overcome.

The commercial cars and vehicles rolling off the production line today are a different breed to those of even recent years. They incorporate greater levels of technology than ever before and many come with a host of advanced driving assisted systems (ADAS) fitted as standard.

Rain sensors on windcreens and assisted parking technology are commonplace and there is a growing prevalence of more sophisticated radar and emergency braking systems.

These are welcome developments, but they have significant implications for insurers in terms of average claim costs.

## Pushing up prices

"There are a lot more ADAS coming as standard in cars and that is pushing up the average cost of repair and replacement," says Mark Bramhall, head of technical motor underwriting, commercial lines UKGI, Zurich Insurance. In particular he highlights windscreen claims as an area where average costs are rising, given the amount of technology that is now incorporated into the glass and the different systems this integrates with throughout the rest of the vehicle.

However, Bramhall expects the technology will ultimately result in fewer claims and so quickly outweigh the more expensive repair costs. Referring to research carried out by Zurich, he says: "We have done some work looking at the effect of assisted emergency braking (AEB) systems. We looked at fleets

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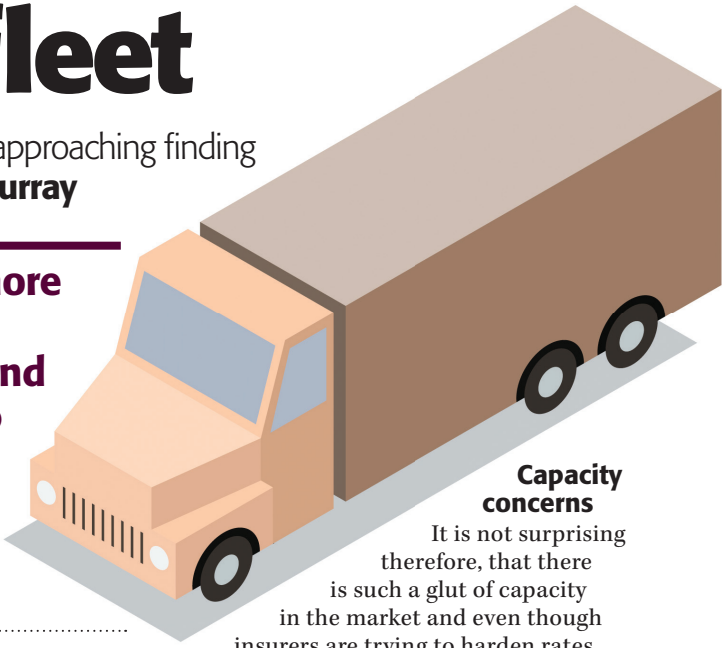
Mark Bramhall

under 200 vehicles over the last four years and saw that 1% of those vehicles, at point of manufacture, had AEB fitted. The claims performance of such vehicles has been about 16% better than those without the same systems."

Since that research was carried out he believes that about 7% of the cars coming off the production line now have ADAS technology. As a result, Bramhall says Zurich is looking at the potential of building ADAS into its rating going forward, underscoring the impact that the technology can have.

Indeed, earlier this year Volvo said its City Safety emergency braking system had generated a 20% reduction in front-end impact crashes. It believes that by 2020

nobody will be killed or seriously injured as a result of a road traffic accident caused by a Volvo. If these claims become reality, it is easy to see the sort of benefits that both drivers and insurers would enjoy.



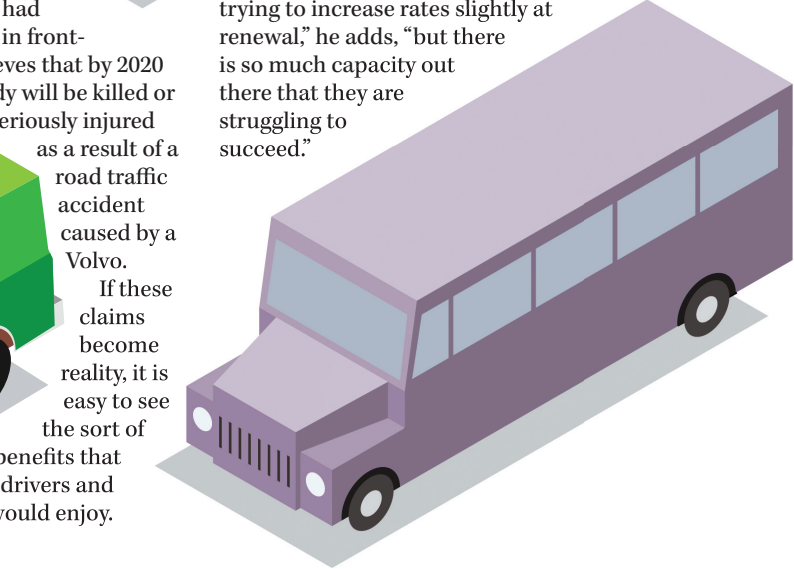
## Capacity concerns

It is not surprising therefore, that there is such a glut of capacity in the market and even though insurers are trying to harden rates gently to reflect increased claims costs, it is proving difficult.

Rob Vincent, commercial motor manager at Dixons Commercial Insurance Brokers, puts it simply when he says: "It is easy for companies to obtain alternative

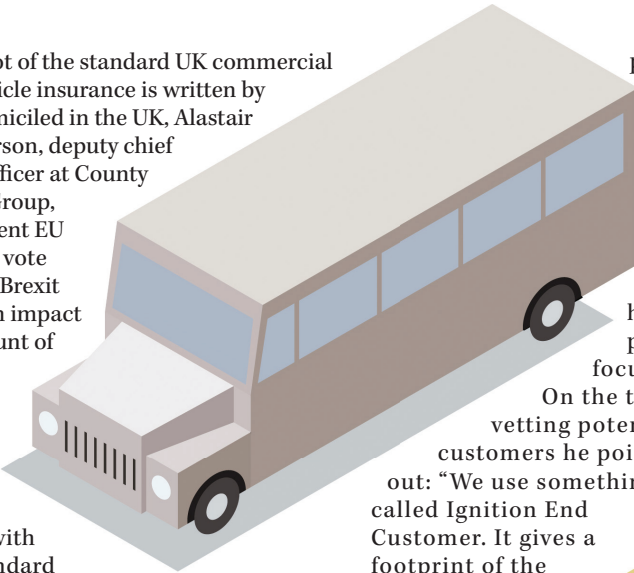
quotations. There is a lot more awareness of alternative options as has happened in the personal lines sector over the last 15 or 16 years."

Philip Wall, director at Walmsleys Commercial Insurance Brokers, agrees. "We are seeing that insurers are perhaps trying to increase rates slightly at renewal," he adds, "but there is so much capacity out there that they are struggling to succeed."



While a lot of the standard UK commercial car and vehicle insurance is written by carriers domiciled in the UK, Alastair Christopherson, deputy chief executive officer at County Insurance Group, says the recent EU referendum vote in favour of Brexit may have an impact on the amount of capacity in the non-standard market.

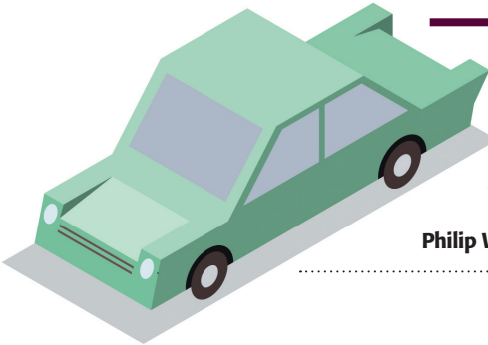
"I think the biggest impact as with all non-standard motor is the offshore element and what will happen there with



profitable business to insurers.

This is another area where technology is playing its part and Wall says his business is putting a major focus on validation.

On the topic of vetting potential customers he points out: "We use something called Ignition End Customer. It gives a footprint of the business we are looking



Philip Wall

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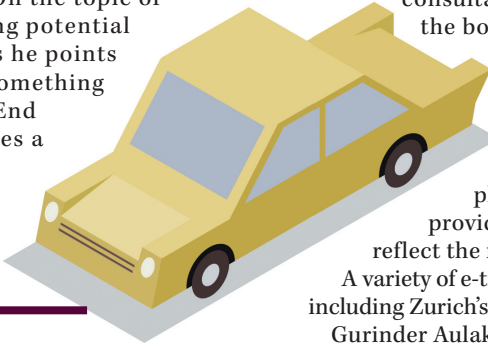
regard to capacity over the years ahead," he says. "This is all up in the air with regard to the continuity of the free trade agreements and has to be sorted out in the coming months."

## Validation improvements

Whatever happens to the availability of capacity, brokers remain committed to improving the way they validate new customers and ensuring they can deliver

to insure so we know more about it."

But it is not just technology that is helping brokers identify good customers and weed out potential fraud. Wall believes insurers are also working well with brokers to help them in this area.



"We have had two fraud presentations from insurers in the office about the sort of things we should be looking for and the type of clients to avoid," he explains. "As an industry they are doing well in educating brokers about what we need to keep an eye on."

In addition to the work being done to stop fraud in the policy application process, The Ministry of Justice has launched a consultation to crack down on fraud in the personal injury space. The consultation paper is outlined in the box (below left).

## Business benefits

Insurers are also working hard to make it easier for brokers to actually place business and to provide rates that accurately reflect the risk in question.

A variety of e-trade solutions are available, including Zurich's Z-Trade offering.

Gurinder Aulakh, head of commercial motor UKGI at Zurich, says there is also a lot of work going into generating individual rates for commercial car and vehicle customers and that

technology has an important part to play in pulling it all together. "Within our rate review one of the factors that we look at is geography and we will look at external indices such as deprivation indices and we have Mosaic indices that are based on social demographic factors," she lists. "We look at our own experience and how risks are performing within those geographies and we will also look at other data sets such as STATS 19, which gives you the number of accidents relative to a particular location."

"Our actuaries will look at that when they are doing their modelling exercises and so we do look at vast ranges of both internal and external indices."

When competition in this market is so fierce, insurers have to get everything right from the front end delivery and pricing, through to the back end claims handling and settlement, if they want to win business. In a market that is evolving so quickly, it is no easy task. ■

## Consultation to crackdown on whiplash claims

● The consultation paper outlines plans to scrap the right to compensation or put a cap on the amount people can claim for minor whiplash injuries. Capping compensation would see the average pay-out cut from £1,850 to a maximum amount of £425. Compensation would only be paid out if a medical report was provided as proof of injury.

Other measures include:

- Introducing a transparent tariff system of compensation payments for claims with more significant injuries
- Raising the limit for cases in the small claims court for all personal injury claims from £1,000 to £5,000
- Banning offers to settle claims without medical evidence. All claims would need a report from a MedCo accredited medical expert before any pay out

Source: Ministry of Justice

