PREMIUM CREDIT

The Premium Credit Insurance Index

Paying for insurance at a time of significant economic disruption

Introduction

Premium Credit has undertaken a series of studies and unique market analysis to gauge sentiment towards buying insurance and the use of credit – among personal, SME and corporate customers in 2020.

The findings, detailed in this report, form part of our first Premium Credit Insurance Index. In particular, the research and analysis focus on the impact of Covid-19 on the purchase of insurance and how personal, SME and corporate customers have changed buying habits and shifted priorities in the wake of the pandemic.

SMEs: if your your business has taken credit to pay for insurance as a direct result of Covid-19, what form of credit have you used?

64% Business credit card

52% Personal credit card

38% Business loan

36% Business overdraft

28% Personal overdraft

17% Personal loan

10% Premium finance

Source: Premium Credit Insurance Index 2020

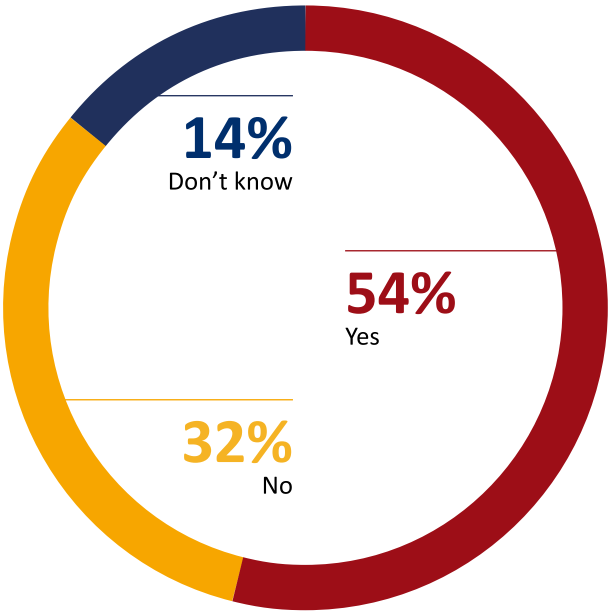
In addition, our research included a review of Premium Credit's own lending data from 2020 and previous years, with a view to seeing how our customers are using premium finance and what impact Covid-19 had on demand.

We also analysed the Government's 2019 Family Spending Report, the official review of UK family finances, to see how overall consumer spending on insurance has changed in recent years.

Our inaugural Index showed that large numbers of people and business have been impacted by the rising costs of insurance and the financial squeeze brought on by Covid-19. Some of the key findings from the Index are:

- Nearly one in five UK consumers have cancelled or cut back on insurance policies as a result of the financial impact of the pandemic
- Households are taking risks with their finances to afford insurance – more than two out of five (44%) say they pay on credit cards while more than half (53%) use the monthly direct debit finance offered by insurers
- Insurance is becoming more expensive. Analysis of the most recent Family Spending Report, published by the UK Government, shows the average household insurance increased 14% year-on-year to £1,045 between 2018 and 2019

SMEs: over the next 12 months, do you think your employer might default on the interest/ capital repayments on the credit borrowed to pay for its insurance?



Source: Premium Credit Insurance Index 2020

- Of the SMEs and corporates that have used credit to pay for insurance, on average, they are paying £1,670 more than 12 months ago
- More than half of SMEs and corporates have cut back on important insurance to reduce costs as the ongoing coronavirus crisis hits their balance sheets - 51% have stopped paying for a range of business insurance policies

- Most firms taking out extra credit are relying on credit cards with 64% using business cards and more than half (52%) of business owners using their personal cards
- Analysis of Premium Credit's own lending data shows that, for FY2019, it lent 3% more than it did the previous year to businesses. Between January and August this year versus the same period in 2019, the firm has lent 6% more

Overall, our Index shows that insurance buying has been impacted over the past year, with this likely to continue as the pandemic remains a significant market risk. Use of credit has increased over the period – but too many stakeholders are using inefficient forms of credit and/or missing out on necessary or important cover to save costs. While the use of premium finance is growing, opportunities remain for strong market expansion.

A renewed stakeholder focus on affordability

Affordability of insurance has long been a key industry issue. The FCA's announcement in September this year regarding its study into the pricing of home and motor insurance renewals attests to this focus.

The FCA itself said, "These markets are not working well for consumers and [we are proposing] remedies to address this… through measures which seek to enhance competition, ensure consumers will receive fair value, and increase trust in these markets."

The FCA said 6 million policyholders were paying high or very high margins in 2018. If they paid the average for their risk, they would have saved £1.2 billion. Some of this is due to harmful pricing practices, which the FCA's proposals aim to tackle.

However, one consequence of this move could be increased prices. Consumer Intelligence, a research company, warned that "one thing is absolute - premiums are going to rise".

"In the current model, insurers offer heavily discounted new business prices to acquire new customers, but don't make profit until year 2 or 3 of the policy. So naturally, prices will need to even out to support the sustainability of the industry."

Consumers - the affordability issue

Nearly one in five UK consumers have cancelled or cut back on insurance policies as the financial impact of the Covid-19 pandemic has turned up the pressure on spending on insurance, according to Premium Credit's Insurance Index.

While travel insurance is the worst affected, customers have also cut important home and car cover as well as pet, life and health.

Adam Morghem, Premium Credit's Strategy & Brand Director said:

"The financial pain of Covid-19 for millions of households is mounting and insurance is one of the bills that people are cutting back on to save money."

"The affordability issue was already a major concern for households before the pandemic with average spending rising 14% in a year – way ahead of inflation – and making it more difficult for people to pay for the insurance they need and value."

Consumers: which of the following forms of credit are you currently using to help pay for one or more type of insurance?

53% Monthly direct debit from insurer

44% Credit card

7% Premium finance

7% Personal loan

6% Pay day loan/high interest loan

6% Borrowing from friends or family

4% Other

Source: Premium Credit Insurance Index 2020

Premium Credit's Insurance Index research shows that even before the onset of Covid-19 insurance customers were feeling the strain – analysis of the most recent Government data shows the average household insurance increased 14% year-on-year to £1,045.

The Premium Credit Insurance Index, which monitors insurance buying and how it is financed, found a growing reliance on credit. Before the onset of the pandemic, around one in four customers (25%) borrowed money to pay for their insurance - the pandemic has driven another one in twenty (5%) to take out credit.

Premium Credit's research also found that of the consumers that have used credit to pay for insurance, on average they are paying £520 more than 12 months previously – a significant rise.

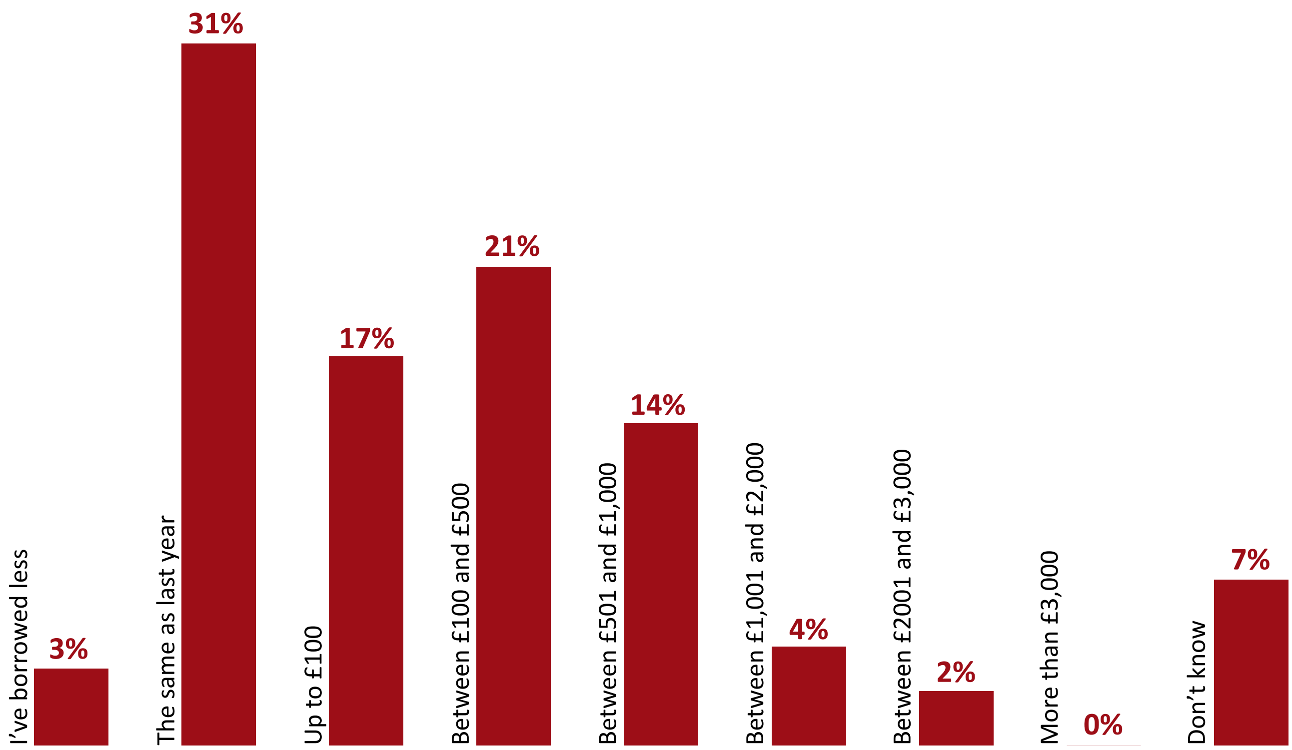
Rising premiums are the main reason for the increase in credit, with 35% of those who have borrowed money saying prices have increased. The reliance on credit for insurance underlines how important customers believe it is – around 61% say paying for their insurance is a high priority in their household finances.

However, Premium Credit's research shows households are taking risks with their finances to afford insurance – more than two out of five (44%) say they pay on credit cards while more than half (53%) use the monthly direct debit finance offered by insurers.

Separate Premium Credit research, conducted in March this year before the pandemic, found 41% of customers who had increased borrowing to pay for insurance did so because premiums had increased while 14% had done so because their finances were being squeezed.

Around one in ten (9%) who have borrowed money to fund insurance fear they might default on the loan in the next year.

Consumers: over the past year, how much more credit do you think you have used to help pay for your insurance than in the previous year?



Source: Premium Credit Insurance Index 2020

SME and Corporate customers - a growing reliance on credit to fund insurance

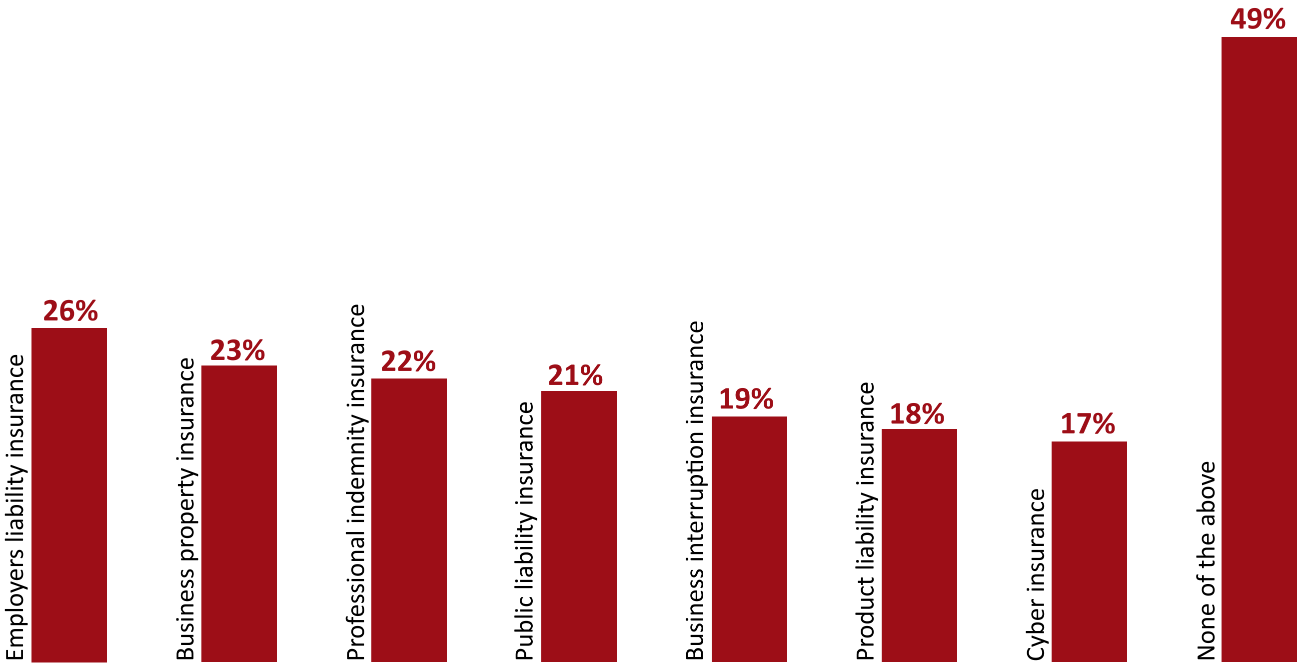
More than half of SME and Corporate customers have cut back on important insurance to reduce costs as the ongoing coronavirus crisis hits their balance sheets, new research from the UK's leading premium finance company, Premium Credit, shows.

Its study found 51% of small and medium-sized firms have stopped paying for a range of business insurance policies with employers' liability insurance the most cut from a list including business property cover, professional indemnity and cyber.

Premium Credit's Insurance Index found nearly one in five (19%) of SMEs have stopped paying for business interruption insurance which has been the subject of disputes about claims being refused when firms were forced to shut by the UK's national lockdown.

The Index found a growing reliance on credit to fund insurance with nearly two out of five firms (37%) borrowing to fund insurance premiums as a direct result of the pandemic.

SMEs: as a result of Covid-19 have you or your business stopped paying for any of the following types of insurance?



Source: Premium Credit Insurance Index 2020

Most firms taking out extra credit are relying on credit cards with 64% using business cards and more than half (52%) of business owners using their personal cards to fund business insurance.

In addition, Premium Credit's research found that SMEs and corporates that have used credit to pay for insurance are, on average, paying £1,670 more than 12 months previously.

Owen Thomas, Chief Sales & Marketing Officer at Premium Credit said:

"It is worrying that so many SMEs and corporates are relying on personal credit cards or their business cards to pay for insurance. We would advise SME owners to speak to their insurance brokers for advice on how best to fund the appropriate level of cover for their business. The costs of insurance are rising and businesses need to manage these costs more effectively."

Premium Credit – strong lending growth across the UK

Analysis of Premium Credit's Insurance Premium Finance lending data shows that, for FY2019, Premium Credit lent 3% more than it did the previous year. For FY2019, SME and Corporate lending by Premium Credit grew by 5% versus 2018.

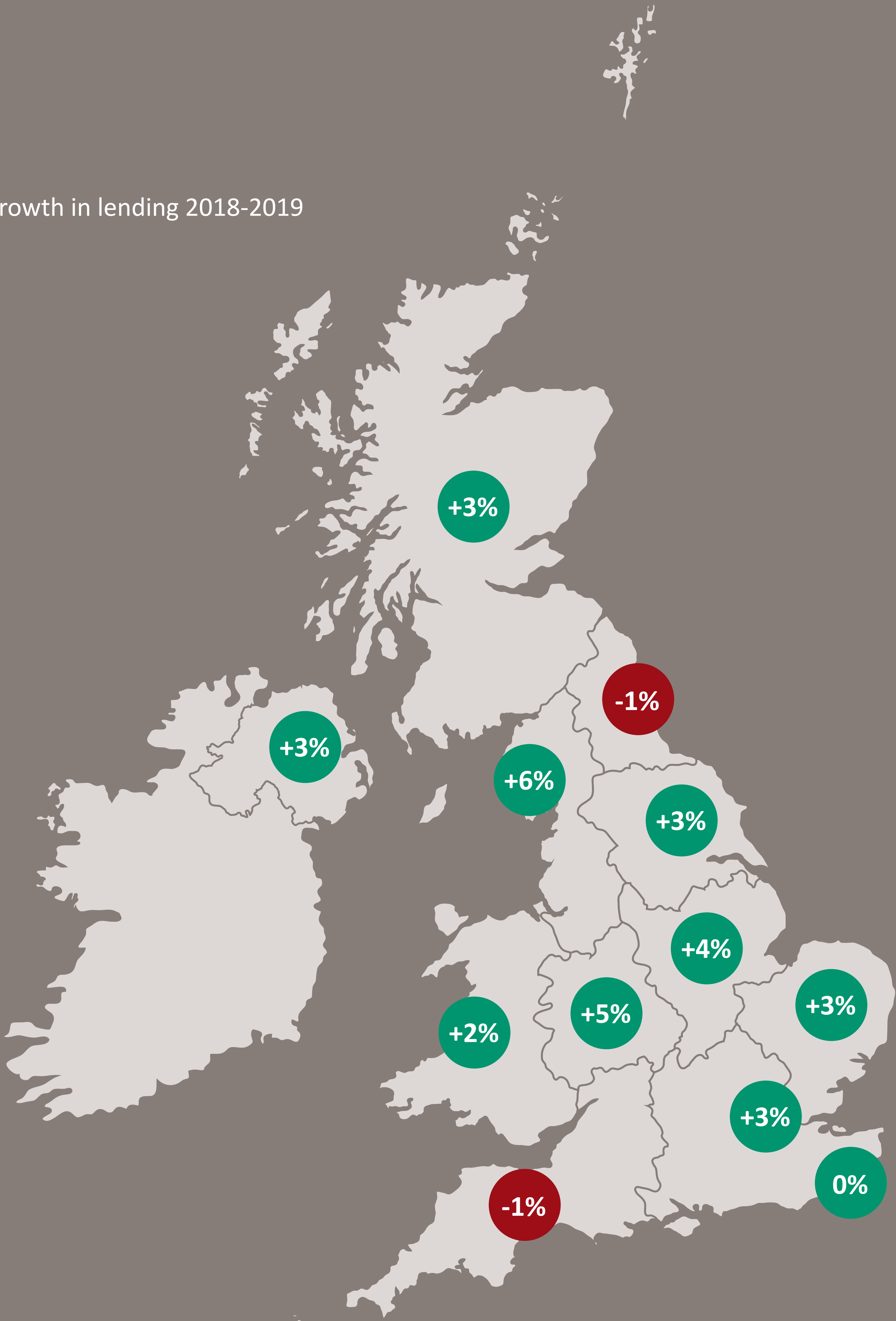
This means that more and more firms and people are finding out about the benefits of premium finance. We believe that more growth is possible as the market share of all lending to pay for insurance taken by premium finance is still relatively small and too many people and businesses are still using inefficient means such as credit cards to pay for insurance.

Regionally, Premium Credit lent the most money to the South East in 2019, making up 14% of its total lending. Coming in close second was the West Midlands, 13%, and the East of England in third with 11%. In terms of how regions have grown, the North West was the fastest-growing market between FY2018 and FY2019.

Region	% of the firm's total lending (2019)	Growth in lending 2018-2019	SME - % of overall lending	Consumer - % of overall lending
South East	14%	0%	56%	44%
West Midlands	13%	+5%	66%	34%
East	11%	+3%	63%	37%
Yorkshire & The Humber	10%	+3%	69%	31%
London	10%	+3%	62%	38%
Ireland	9%	+3%	80%	20%
North West	9%	+6%	69%	31%
Scotland	7%	+3%	68%	32%
South West	6%	-1%	50%	50%
Wales	4%	+2%	63%	37%
East Midlands	4%	+4%	66%	34%
North East	2%	-1%	64%	36%
Other	1%	+13%	47%	53%

What has the impact of Covid-19 been on the lending patterns? It is difficult to give a solid conclusion on a long-term perspective, but lending has increased this year: up 6% YTD 2020 versus the same period in 2019.

Growth in lending 2018-2019



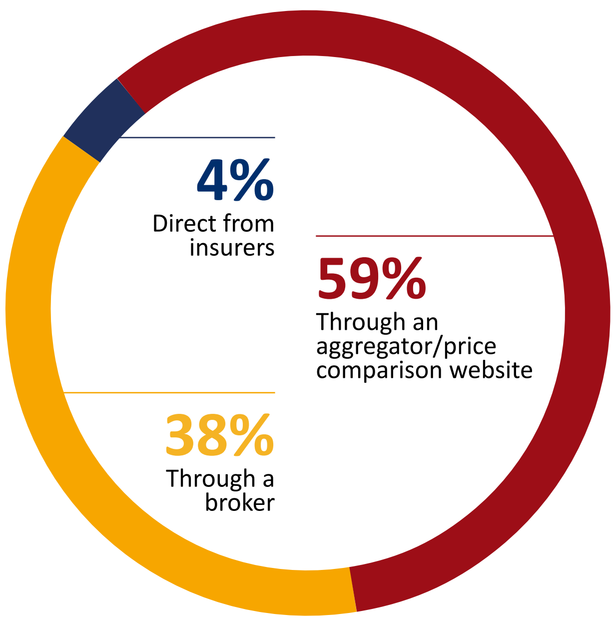
Conclusion - a central role to play for premium finance

Premium finance has a central role to play in helping consumers and businesses better manage the cost of buying insurance – it enables them to pay monthly for cover instead of in a lump sum which can help with cashflow and payment challenges.

However, more needs to be done to inform these markets – currently only around 7% of consumers say they use premium finance, for instance.

Research for its Index showed SMEs using more expensive means of credit have suffered financially with 46% defaulting on interest or capital repayments in the past year while 54% worry they may default in the year ahead. Premium finance can help manage cashflow far more effectively – particularly at this current time of economic hardship.

Consumers: how do you typically buy insurance?



Source: Premium Credit Insurance Index 2020

Owen Thomas said:

“Premium finance has become a very cost-competitive means for SMEs and consumers to buy insurance and better manage their finances through spreading payments. At a time when insurance is becoming more expensive it can be a good alternative to other forms of credit.”

“Necessary, often legal cover such as employer’s liability is likely being cut as firms reduce numbers of staff and wage rolls as a result of Covid-19. Cutting back on critical insurance can, however, be a mistake as not having the appropriate cover or being underinsured can be a serious risk for SMEs. This is where premium finance can really help.”

Adam Morghem said:

“SMEs have had to battle to stay afloat during the pandemic which makes it understandable that they have cut back on insurance and taken out more credit.”

“Perhaps the biggest risk of all is not having the appropriate cover. For example, Premium Credit’s Insurance Index research found that 42% of SMEs said they have in the past five years suffered damage or losses they couldn’t claim for because of not being insured or being underinsured. Around 24% said they were underinsured while 18% say they didn’t have the appropriate insurance.”

About Premium Credit Limited

Premium Credit is a leading provider of premium finance as well as finance to pay annual fees such as accountancy and school fees. We support over 3000 intermediaries in our chosen markets and help over 2.1 million customers, processing more than 24 million Direct Debits annually.

www.premiumcredit.com

premiumcredit.com
twitter.com/pcl4brokers
linkedin.com/company/premiumcreditltd

Sources:

Independent research conducted by Consumer Intelligence online among 156 SME owners and managers between August 20th and September 3rd, 2020

Independent research conducted by Consumer Intelligence online among a nationally representative sample of 1,085 adults aged 18-plus on August 20th 2020

Family Spending Report 2019 www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/april2018tomarch2019