The Premium Credit Insurance Index 2023

The importance of credit in creating opportunities for personal, SME and corporate insurance customers through convenient payments, despite cost of living pressures and economic disruption

Welcome to our 2023 Insurance Index

We have been monitoring the views and experiences of consumers and SME & corporates on buying insurance and the use of credit since 2020 as part of our Premium Credit Insurance Index.

It's been a turbulent period ranging from the impact of Brexit on businesses and consumers followed by the COVID-19 pandemic and then shortly after by the cost of living crisis.
A combination of surging inflation and interest rates with the addition of steep increases in bills has put household and business finances under pressure.

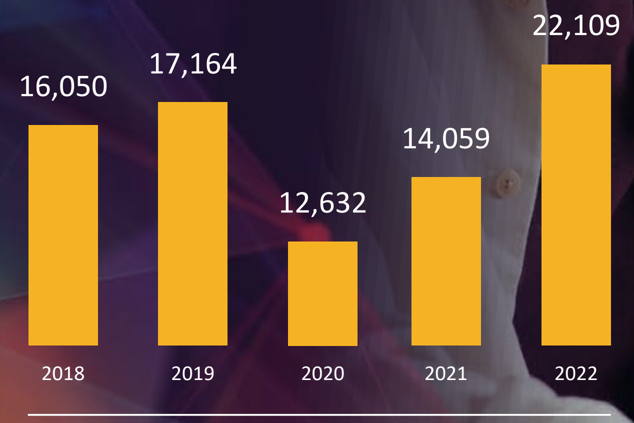
There have been 12 increases in the Bank of England Base Rate since December 2021 rising from 0.1% to 4.5% as the graph below shows.

Company insolvencies in England and Wales rose to a 13-year high in 2022 and increased 57% on 2021 as the graph to the right shows.

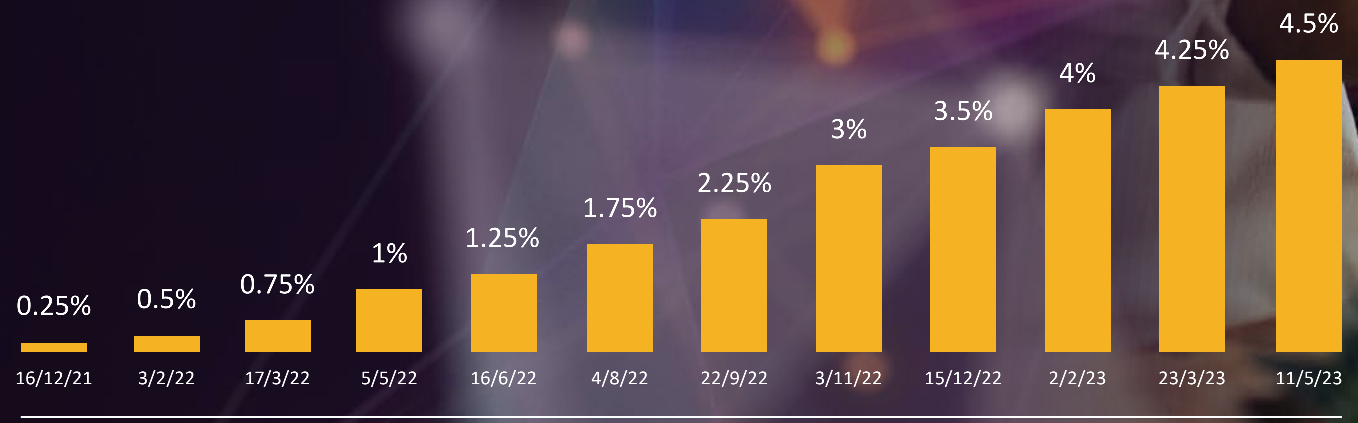
On the domestic regulatory front the insurance industry has gone through the introduction of new rules from the Financial Conduct Authority banning the practice of offering lower rates to new customers ahead of loyal customers and is preparing for the implementation of the FCA's Consumer Duty rules aiming to set firms' higher standards of care for consumers.

The latest research conducted in March this year looks at consumer and SME & Corporates' views and experiences after more than a year of the cost of living crisis with persistent high inflation and energy bills and ongoing interest rate rises.

This is our fourth report building on previous editions in 2020, 2021 and 2022.



COMPANY INSOLVENCIES



BANK OF ENGLAND BASE RATE

"As we progress further into 2023, the insurance market continues to grapple with the ongoing effects of inflationary pressures and the cost of living crisis, which has left a significant impact on consumers and businesses alike. The rising costs of parts, repairs, building materials, and labour contribute to a sustained hardening of the market. Our latest research shows that more consumers and SME & Corporates are resorting to credit to manage their insurance payments, with 70% of consumers and 51% of SMEs using some form of credit for their policies.

This highlights the growing need for affordable credit options to help customers maintain adequate insurance coverage during these challenging times. Insurance providers must prioritise offering flexible and manageable payment solutions to prevent underinsurance or lack of coverage, ensuring that customers aren't left facing sizeable repair bills they can't afford."

Ian Hughes
CEO of Consumer Intelligence

Year on year, more consumers are using credit to pay for almost all policies monitored by the index with notable rises in car and home insurance.

Percentage of adults using credit to pay insurance monthly

		YOY
Car insurance	46%	+4% pts
Home insurance	48%	+6% pts
Life insurance	31%	+1% pts
Pet insurance	26%	+2% pts
Health insurance	18%	+1% pts
Travel insurance	19%	+6% pts
Critical illness cover	13%	+2% pts
Specialist insurance (boat, horse etc)	6%	+0% pts

Overall percentage of SME & Corporates buying insurance using credit to pay for their cover

		YOY
Vehicle insurance	38%	-6% pts
Property insurance	32%	-7% pts
Public and Product liability	24%	-5% pts
Employer liability insurance	21%	-7% pts
Business interruption insurance	13%	-4% pts
Cyber insurance	13%	-3% pts
Other financial lines	13%	-1% pts
Key man insurance	11%	+2% pts
Directors and officers insurance	12%	+3% pts

Our latest research shows 70% of consumers and more than half (51%) of SME & Corporates are using some form of credit to pay for one or more of their insurance policies.

The concern remains that some individuals, SME & Corporates are relying on general and potentially very expensive forms of credit. Unlike other forms of generic credit, such as overdrafts or credit cards, premium finance is specifically designed for consumers buying insurance, making instalment finance convenient. Demand for premium finance continues to grow as the benefits of the product are communicated clearly and compliantly to customers.

Some of the key findings are:

- Nearly two out of five (38%) consumers who use some form of credit to pay for one or more insurance policies borrowed more than they had in the previous 12 months for this purpose.
- That is an increase on the 34% borrowing more as reported by the index in March 2022 and the one in four recorded by the index in October 2021. The 70% of consumers using some form of credit recorded this year was higher than the 66% in March 2022 and 69% in October 2021.
- Among those companies using credit to pay for their insurance, 25% say they have taken on more credit over the past year while 22% have borrowed less and 35% are borrowing the same amount.
- That compares to 21% who said they have taken on more credit as reported by Premium Credit's Insurance Index last year which also saw 24% borrowing less and 37% borrowing the same amount.
- Among consumers who increased their level of borrowing, the main reason for doing so was the ongoing squeeze on finances caused by the cost of living crisis. Around 44% said they borrowed more to ease financial pressures compared to just one in six (16%) who said they borrowed more because of rising premiums while 6% said it was because their income had fallen and 3% said it was due to losing their job.
- A quarter (25%) of SME & Corporates have reduced the level of cover they have across a range of insurances with vehicle, property, public and product liability most likely to see reductions in cover. Around a third (32%) of SME & Corporates which have reduced the level of cover, cancelled at least one policy. Up to 10% questioned said they plan to increase the level of cover in the year ahead.
- Around 45% of SME & Corporates said the value of their insurance premiums had increased in the past year with nearly one in ten (9%) saying it had increased dramatically.
- But the biggest reason for borrowing more was rising energy bills; 53% said they were borrowing more compared to 45% who blamed rising premiums and 41% who cited rising costs for materials.
- The number of consumers cancelling policies as a result of not being able to afford cover has remained largely unchanged. Around 3% said they have cancelled contents cover – the same result as in 2022 – while around 4% have cancelled buildings cover which was slightly up on 3% in the previous index.
- Consumers continue to become happier using credit to pay for insurance – around a quarter (24%) of customers say that over the past year they have become happier about using credit which is slightly higher than the 23% recorded last year.
- More consumers are spending more time shopping around – this year's index found 53% are putting more effort into finding the best quality cover and price compared with 43% in last year's index.
- Our own data shows a rise of almost 20% in total net advances of insurance premium finance in 2022 from the previous year compared with a 5% increase from 2020 to 2021.

The cost of underinsurance is rising for consumers and SME & Corporates

Premium Credit's Insurance Index asks consumers and SME & Corporates to say whether in the past five years they have been unable to claim for damage to property or buildings because they were underinsured or not insured at all.

The numbers are increasing among companies - around one in seven (14%) SME & Corporates questioned said they had been unable to claim for damage to property or belongings in the past five years because they had no insurance or were underinsured. That compares to 12% in the 2021 index.

Average losses on claims reported by this year's index are nearly £3,000 and 15% of SME & Corporates said they were unable to claim for £5,000 or more.

Around one in twelve (8%) of those consumers who use credit to pay for insurance have not been able to make claims in the past five years either because they had no cover or had inadequate cover.

Nearly two out of three (67%) lost out on claims worth £1,000 or more, the index found.

"Credit plays a major role in ensuring that SME & Corporates and consumers have the correct types and level of insurance they need. That is important for business operations and for business and personal finances. The losses from not having the right insurance or no insurance are substantial and it is worrying to see so many SME & Corporates cutting back on cover."

Owen Thomas
Chief Sales Officer
Premium Credit

Premium finance helps SMEs and corporates to improve cash flows, leaving more money available to meet other cost commitments or to reinvest in the business. Payments can be tailored to cash flow and weighted to client payments.

They can also potentially save on corporation tax as the interest rate is reduced. Loans, typically less than 12 months, are potentially off-balance sheet so existing borrowing arrangements are not affected.

The payment process is easier than corporate loans. The credit agreement is signed online, and renewals do not require signatures.

Personal customers benefit from market-leading acceptance rates enabling access to often mandatory or essential products.

Personal customers and SME & Corporates are making more use of credit

More insurance customers using credit to buy their cover are increasing the amount they borrow to help ease cost of living pressures. Our research shows that 38% of customers who use some form of credit to pay for one or more insurance policies borrowed more than they had in the previous 12 months for this purpose. Around half (49%) say they have not borrowed more while 3% say they have borrowed less and 10% didn't know.

That is an increase on the 34% borrowing more as reported by the index in March 2022 and the one in four recorded by the index in October 2021. The number of people using some form of credit to pay for one or more insurance policy was also higher at 70% compare with 66% in March 2022 and 69% in October 2021.

More than half (51%) of SME & Corporates are relying on credit to pay for their insurance, borrowing on average around £1,130. Around 13% of SME & Corporates who use credit to pay for their insurance claim to have borrowed over £3,000 to fund their cover.

This year's index shows that of those companies using credit to pay for their insurance 25%, say they have taken on more credit over the past year while 22% have borrowed less and 35% are borrowing the same amount.

That compares to 21% who said they have taken on more credit as reported by Premium Credit's Insurance Index last year which also saw 24% borrowing less and 37% borrowing the same amount.

There are signs of strain among consumers and SME & Corporates, however. Around 6% who used credit to pay for one or more insurance policy said they had defaulted on repayments during the past year which is slightly up on the 5% who said they had defaulted in 2022.

Among SME & Corporates 16% who use credit and had defaulted in the past year on credit taken out to pay for insurance and around 20% said they might default in the year ahead.

"The Consumer Duty will lead to a major shift in financial services and will promote competition and growth based on high standards. As the Duty raises the bar for the firms we regulate, it will prevent some harm from happening and will make it easier for us to act quickly and assertively when we spot new problems."

Sheldon Mills
Executive Director of Consumers and Competition
FCA

What is Consumer Duty?

The aim is to set higher and clearer standards of consumer protection across financial services and requires firms to act to deliver good outcomes for customers.

It requires firms to:

- End rip-off charges and fees.
- Make it as easy to switch or cancel products as it was to take them out in the first place.
- Provide helpful and accessible customer support, not making people wait so long for an answer that they give up.
- Provide timely and clear information that people can understand about products and services so consumers can make good financial decisions, rather than burying key information in lengthy terms and conditions that few have the time to read.
- Provide products and services that are right for their customers.
- Focus on the real and diverse needs of their customers, including those in vulnerable circumstances, at every stage and in each interaction.

What is driving borrowing?

The biggest change in the past year has been the impact of the cost of living squeeze on consumers. It is the main reason for increasing borrowing identified by the research among those who use credit with 44% saying they borrowed more to ease financial pressures.

Just one in six (16%) said they borrowed more because of rising premiums while 6% said their income had fallen and 3% said they had lost their job. In the 2022 index the main reason for increasing borrowing was rising insurance premiums with 27% saying they borrowed more because of that.

Among SME & Corporates the biggest reason for increasing borrowing was one of the main drivers of the cost of living squeeze – rising energy bills.

Among those businesses using more credit, 53% said they were borrowing more because of rising energy bills while 45% blamed rising premiums and 41% pointed to a rise in the cost of materials.

In the 2022 index the main reason for borrowing more among those using credit was the ongoing impact of the COVID-19 crisis cited by 43% followed by 30% who said it was because their firm had taken on more credit for other reasons and did not have the cash to pay for insurance. Around 29% blamed rising premiums.

How are they borrowing?

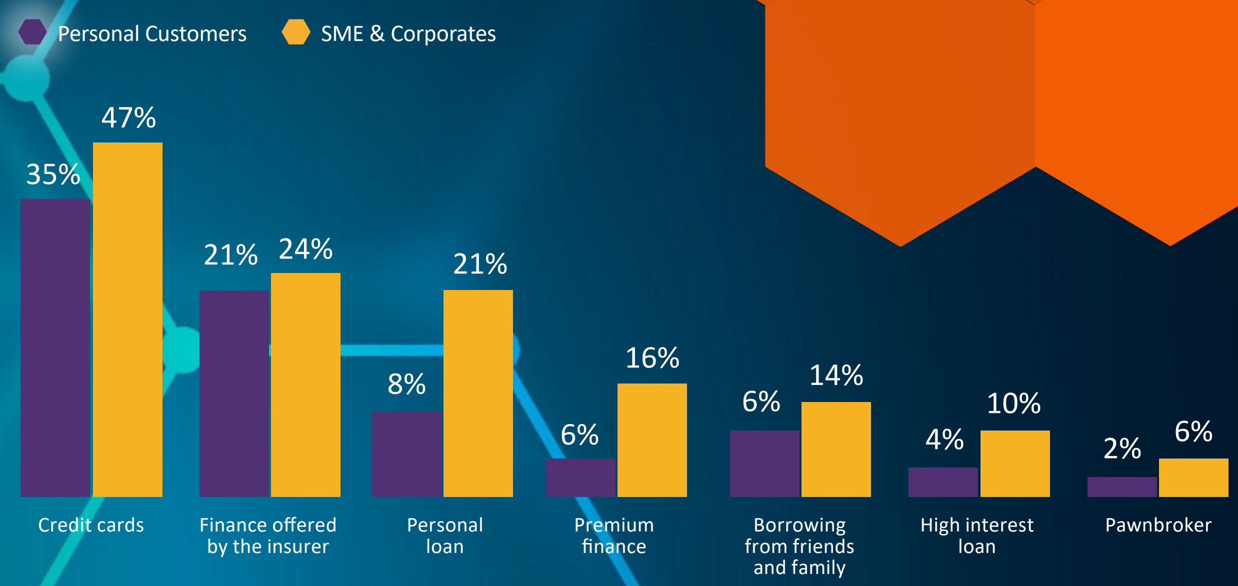
Our index shows 35% of personal customers who borrow to pay for insurance are relying on credit cards which was unchanged on last year while 47% of SME & Corporates rely on credit cards compared with 41% last year. Research in October 2021 found 36% of consumers used credit cards while 44% of SME & Corporates relied on plastic.

Accessing credit – and particularly credit cards – is however becoming an issue for borrowers. Around one in seven (14%) of adults questioned this year say they have found it harder to borrow since the start of the cost of living crisis. More than one in six (17%) said they have been rejected for cards.

That is higher than last year's index found. Around one in ten adults said last year was becoming harder to access credit and 14% said they had been rejected for a card.

Similar numbers of SME & Corporates report issues in accessing credit – 17% said it has become harder since the cost of living crisis started, according to this year's index.

The table below shows how personal customers and SME & Corporates are borrowing currently. Premium Credit's own data shows higher usage of premium finance particularly among personal customers.



> *"Premium finance is specifically designed for insurance buyers to help make important insurance policies affordable and improve cashflow. Looking to spread the cost of an annual policy into more manageable monthly payments works for many millions of UK consumers and businesses.*
>
> *Premium finance remains a very cost-competitive and convenient means for consumers to buy insurance and better manage their finances through spreading payments. At a time when household and business finances are under pressure it can be a good alternative to other forms of credit."*
>
> **Adam Morghem**
> Marketing & Communications Director
> Premium Credit

Views are changing on credit and shopping around for insurance

We have continued to monitor consumer attitudes to buying insurance on credit and how much time people spend on shopping around for insurance in this year's index. Data shows a major increase in the number of people spending more time on shopping around and that more people are becoming happy about using credit.

The cost of living crisis is encouraging consumers to spend more time on shopping around. Our research this year found 53% of insurance customers are putting more effort into finding the best quality cover and price. That is higher than the 43% of customers who said they were putting more time into shopping around when Premium Credit's Insurance Index reported last year.

The increase is mainly due to the cost of living crisis. Around 71% who are spending more time on comparing prices and quality of cover say they are motivated by rising prices across the economy.

People are becoming happier using credit. Around a quarter (24%) of customers say that over the past year they have become more accepting about using credit to fund cover which is slightly higher than the 23% who told last year's Premium Credit Insurance Index they had become more accepting about using different forms of credit.

More than a third (35%) of those who are more accepting of using credit say it is because they have become more financially savvy while 33% say more credit is available. A fifth (20%) say they are better off and more comfortable using credit.

"Consumers are focused on saving money and minimising price rises as a result of the cost of living crisis and that is reflected in more people spending more time assessing the most competitive prices and the best quality of cover. That is likely to continue to be the case and the use of credit is a growing part of that.

Unlike other forms of credit, like credit cards or overdrafts, Premium Finance is specifically designed for insurance buyers to help make important insurance policies affordable and improve cashflow. Looking to spread the cost of an annual policy into more manageable monthly payments works for many millions of UK consumers and businesses."

Adam Morghem
Marketing & Communications Director
Premium Credit

Strong lending growth across the UK

Analysis of our own insurance premium finance lending data shows strong growth in 2022 compared with the previous year with personal and commercial net advances and policy count expanding.

In 2022, total net advances were almost 20% higher than in 2021 which in turn was 5% higher than in 2020. This highlights the growing interest from firms and consumers in using premium finance as an alternative to other forms of credit in the past year. Both Premium Credit and our partners are confident that more growth is possible as the penetration of all lending to SME & corporates, as well as individuals, is comparatively small.

Too many people and businesses are relying on other forms of general credit, such as credit cards that are potentially expensive and inefficient ways of funding insurance premiums.

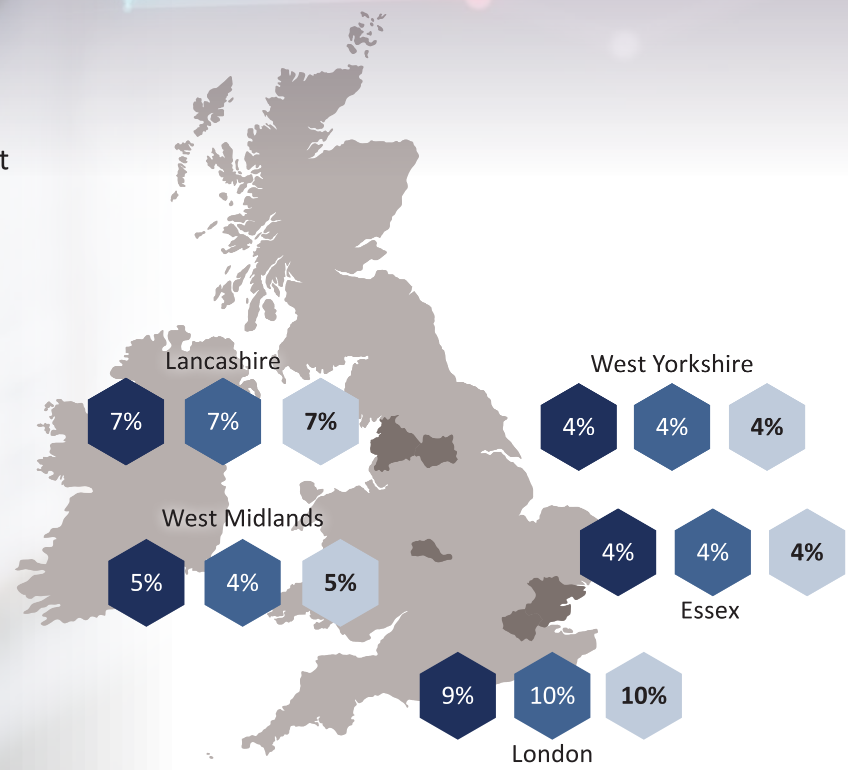
The construction industry remained the strongest for lending accounting for 12% of all net advances in 2022 which was flat YOY. We saw strong growth in lending to the professional and scientific sector which moved from a 10% share last year to 12% in 2022 and remained in second place. It ranked fourth in 2020. The wholesale and retail trade continued to grow and was ranked fifth.

Across the country, London strengthened its position as to where we lend the most, with the capital accounting for 10% of total lending in 2022 flat YOY and an increase on the 9% in 2020. The top five counties have remained the same for the past three years with West Yorkshire pulling ahead of Essex this year.

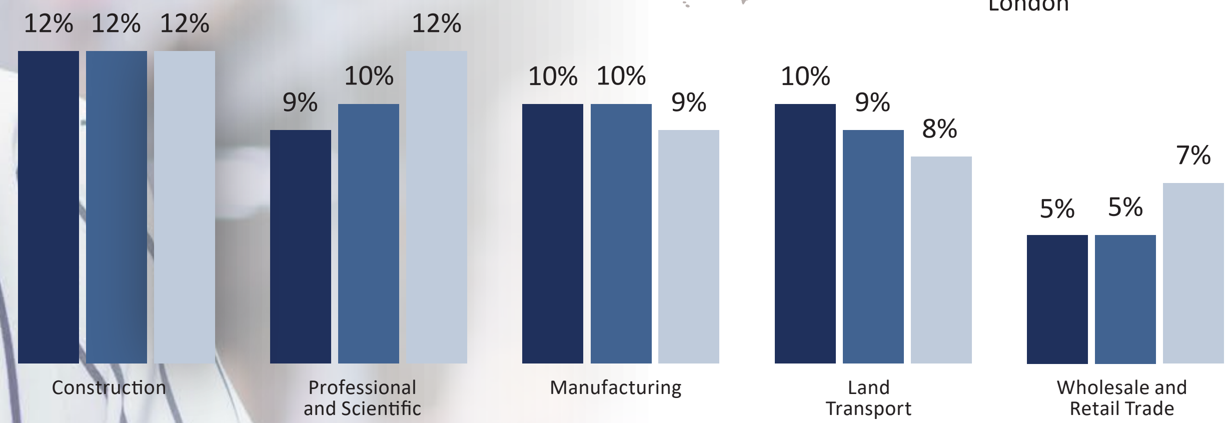
The charts below show the top five counties and top five sectors for net advances in 2020, 2021 and 2022.

County

- **2020 %**
- 2021 %
- 2022 %



Industry



> *"More customers are becoming aware and confident when using credit to buy insurance.*
>
> *Premium finance is specifically designed for insurance buyers to help make important insurance policies affordable and improve cashflow. Looking to spread the cost of an annual policy into more manageable monthly payments works for many millions of UK consumers and businesses."*

Adam Morghem
Marketing & Communications Director
Premium Credit

Conclusion – a growing role for premium finance

Premium finance is growing strongly as more SME & Coroprates and consumers use it as a way of continuing to be able to fund important insurance cover in the face of a growing cost of living squeeze.

It enables customers to pay monthly for cover instead of in a lump sum for a small charge and is a very convenient and cost competitive way for customers to buy insurance and better manage their finances through spreading payments, which helps with cashflow and preserves working capital for businesses. At a time when insurance is becoming more expensive for many SME & Coroprates, as well as some individuals, it can be a strong alternative to other forms of credit.

Credit plays a vital role in enabling companies and consumers to pay for insurance as the index shows. More than half (51%) of SME & Coroprates and 70% of consumers use some form of credit to pay for one or more insurance policies.

However, the index shows accessing credit and credit cards in particular is not as easy as it was. Around one in seven (14%) people questioned this year say they have found it harder to borrow since the start of the cost of living crisis, while 17% of SME & Coroprates also say it is becoming harder to borrow. More than one in six (17%) said they have been rejected for credit cards.

There are signs too that SME & Coroprates and consumers are cancelling insurance cover. A quarter (25%) of SME & Coroprates have reduced the level of cover they have across a range of insurance and around a third of them have cancelled at least one policy.

Being underinsured or uninsured comes with a cost - 14% of SME & Coroprates questioned said they had been unable to claim for damage to property or belongings in the past five years because they had no insurance or were underinsured. Average losses on claims were nearly £3,000 and 15% of SME & Coroprates said they were unable to claim for £5,000 or more.

Around one in twelve (8%) consumers who use credit to pay for insurance have not been able to make claims in the past five years either because they had no cover or had inadequate cover. Nearly two out of three (67%) lost out on claims worth £1,000 or more.

All insurance professionals can help to address that issue and ensure both personal and commercial customers have the right insurance at the most competitive price.

"The British insurance broking community works hard to deliver first class insurance solutions for personal and business customers. Premium finance plays an increasingly important role in enabling customers to access the cover they need, when they need it and at the right price, whilst also giving brokers significant opportunity to grow their businesses. As BIBA's only accredited premium finance provider, we endorse Premium Credit's award winning payment solutions."

Steve White
Chief Executive Officer,
British Insurance Brokers' Association (BIBA)

About Premium Credit Limited

Premium Credit is a purpose-led leading provider of insurance premium finance and a range of annually charged services, including tax, regulatory and accountancy fees, memberships and school fees in the UK and Ireland. Each year, we lend more than £4 billion to well over two million customers through a network of almost three thousand partners and process over 24 million direct debits. We are multi award winning and the only premium finance provider accredited by BIBA and Brokers Ireland.

For more information, please visit: www.premiumcredit.com

Sources

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