

The Premium Credit Insurance Index May 2022



The importance of credit in
helping personal, SME and
corporate customers to continue
to afford insurance despite
major economic disruption

Introduction

We have been monitoring the views and experiences of personal as well as SME and corporate customers on buying insurance and the use of credit since October 2019 as part of our Premium Credit Insurance Index.

It's a period which has spanned the COVID-19 pandemic and the economic disruption it brought as well as the initial impact of the cost of living crisis which has brought rising inflation and interest rate rises in addition to steep increases in energy bills. The insurance industry has also seen major changes with the introduction in January this year of new regulations from the Financial Conduct Authority banning the practice of offering lower rates to new customers ahead of loyal customers.

We have already published two reports – the first in October 2020 which focused on the immediate impact of the COVID-19 crisis and the second in May 2021 which expanded on the initial findings as well as including our own lending data. We updated the figures in October last year.

Our latest index based on exclusive national research among 1,026 adults aged 18-plus and 745 SME owners and managers conducted in March this year maintains the focus on how credit is being used to pay for insurance and the pressures personal, SME and corporate customers are under.

It also looks at issues such as shopping around for insurance, attitudes to paying for insurance on credit, late payment of invoices for SMEs and SME optimism.

Ian Hughes, CEO of Consumer Intelligence says:

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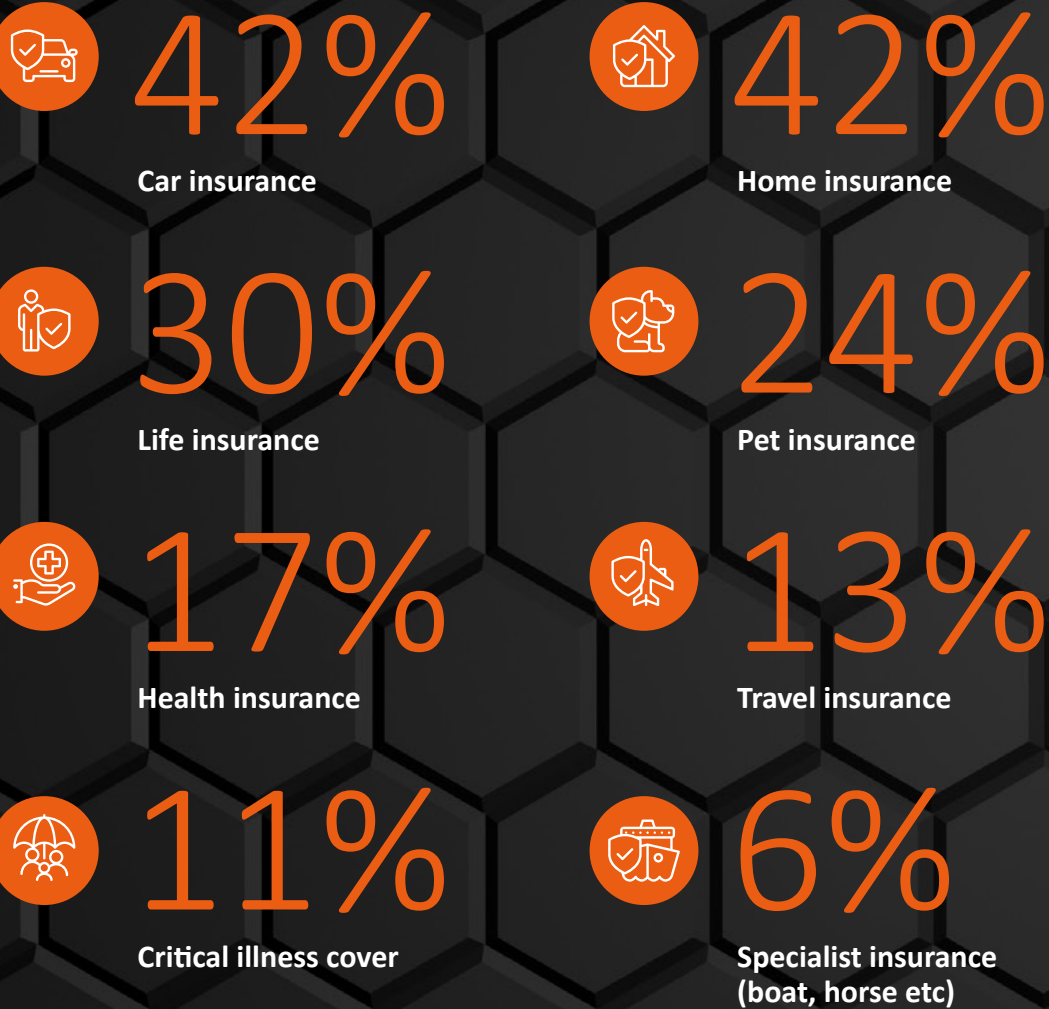
In the first three months of 2022, we saw a one-time step change in insurance pricing, as new business prices rose significantly to create a level playing field with renewal pricing. Whilst premiums haven't continued to spiral upwards, we do expect to see the market continue to harden thanks to inflationary pressures driven by the increasing cost of parts, repairs, building materials and labour.

“Overlay this with the cost of living crisis, which is being felt by 68% of people according to our latest research conducted in May this year, and we can see the potential for increasing levels of underinsurance, and even no insurance. Without adequate cover, customers will be left to front the cost of large repair bills at a time when they simply can't afford it. Now is the time to make the cost of insurance manageable for customers by offering them affordable credit options.”

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The study confirms widespread use of credit by both consumers, SMEs, and corporates to pay for insurance as the tables below demonstrate.

Percentage of adults using credit to pay their insurance monthly



Overall percentage of SMEs by insurance using credit to pay for their cover



Our latest research shows two out of three (66%) consumers and nearly six out of ten (59%) SMEs are using some form of credit to pay for one or more of their insurance policies

The role of premium finance in supporting insurance customers is growing, but the concern is that some individuals, SMEs, and corporates are relying on general and potentially expensive forms of credit. Premium finance is ideally placed to achieve strong growth, but the market needs to do more to explain how it can help support customers.

Some of the key findings are:

- One in three (34%) consumers who use some form of credit to pay for one or more insurance policy borrowed more than they had in the previous 12 months for this purpose
- That is higher than the one in four who said they had borrowed more in the previous 12 months when Premium Credit last carried out the research in October 2021
- Among companies using credit to pay for their insurance, 21% say they have taken on more credit over the past year but 24% say they have borrowed less while 37% are borrowing the same amount. That compares to October last year when 20% had taken on more credit while 30% had borrowed less and 32% had borrowed the same
- Among consumers who use credit to buy insurance 27% said they borrowed more because of rising insurance premiums while 23% borrowed more because their income has fallen and 6% because they lost their jobs
- Among those businesses using more credit, 43% said it is because of the ongoing impact of the COVID-19 crisis while 29% blamed rising premiums and 28% pointed to a drop in income. That compares to 50% in October who blamed the pandemic impact and 31% rising premiums. Last year 73% blamed COVID-19 and 36% rising premiums
- Around one in twelve SMEs (8%) who use credit to pay for their insurance have seen their premiums rise dramatically in the past year while 47% report slight increases. Around 14% say they have increased their claims excess and 14% have reduced their level of insurance cover
- Some personal customers have had to cancel policies as a result of not being able to afford cover— around 3% have cancelled buildings insurance and 3% have cancelled contents cover. That is slightly better than the October figures which saw 4% cancelling buildings cover and 3% contents cover and an improvement over this time last year when 5% had cancelled or amended buildings insurance and 7% had cancelled or amended contents insurance
- Around 43% of personal customers say they are taking more time to compare prices and the quality of cover since the pandemic started
- Nearly one in four (23%) adults say they are now more accepting of buying insurance on credit than they were a year ago and the main reason for the change in their views is that they believe they have become financially astute
- Our own data shows a 5% rise in total net advances of insurance premium finance in 2021 from the previous year. The big growth has come from commercial insurance where total net advances are up 7.7% year on year

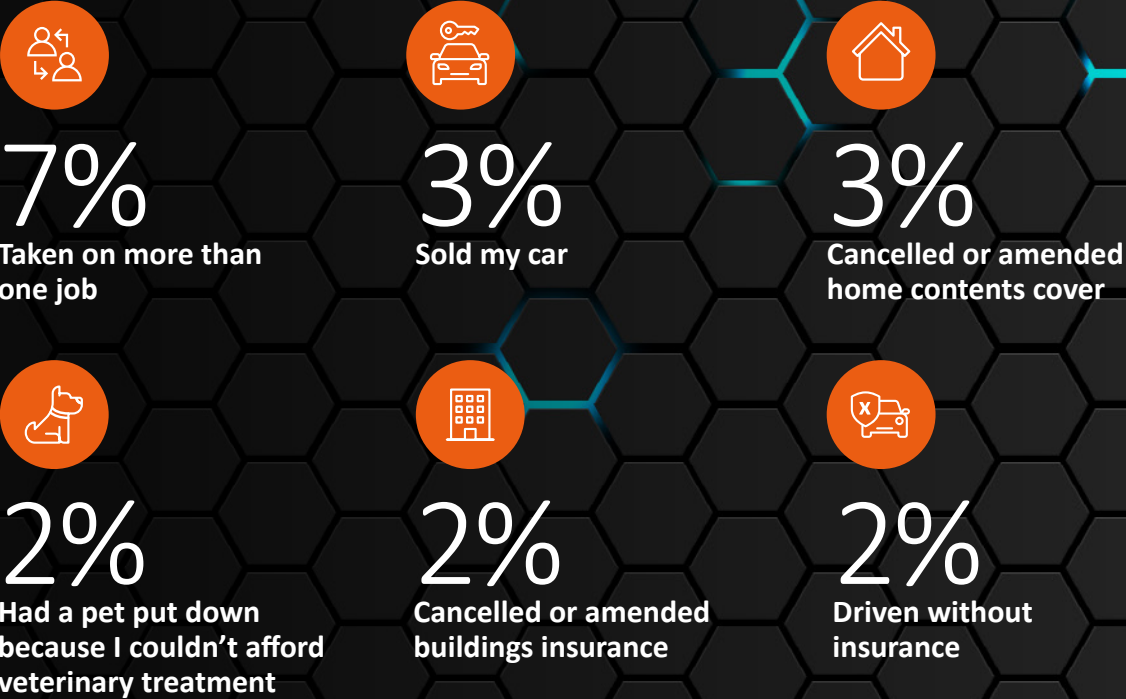


Some consumers are taking risks with credit and insurance

Our index shows that many people are feeling the financial pain of continuing to afford their insurance. Some 7% of those who use credit to pay for premiums have taken on more work to help do this, while 3% have sold their car. The table below shows the actions consumers have taken.

What have you done in the past 12 months as a result of not being able to afford your insurance?

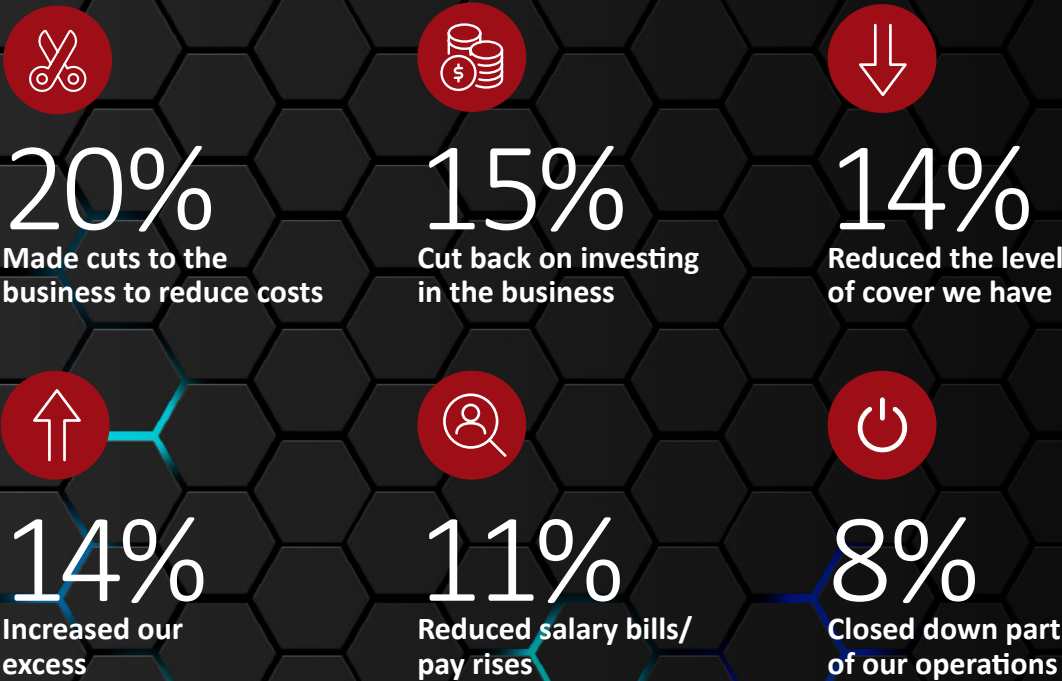
(Number of customers who use credit to help pay for their premiums who have done this)



Among SMEs who borrow to fund insurance, a fifth have made cuts to the business in response to rising premiums while 15% have cut back on investing and 14% have reduced the level of cover or increased excesses

What action has your company taken in the past two years as a result of rising insurance premiums?

(Number of customers who use credit to help pay for their premiums who have done this)



Around one in twelve (8%) personal customers 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 half (47%) of them lost out on claims worth £1,000 or more.

Among SMEs around one in eight (12%) have not been able to make claims in the past five years either because they had no cover or had inadequate cover. Around three-quarters (75%) of them lost out on claims worth £1,000 or more with 34% missing out on claims worth £3,000 or more.

Owen Thomas, Chief Sales Officer at Premium Credit commented:

“Credit plays a vital role in ensuring that businesses continue to have the right type and level of insurance that they need across their operations. The 100% offer of a finance option by brokers – especially because of the continuing impact of the COVID-19 pandemic on businesses up and down the country - has never been more critical.”

Personal customers and SMEs are making more use of credit

More than one in three (34%) personal customers who use some form of credit to pay for one or more insurance policy borrowed more than they had in the previous 12 months for this purpose. That is an increase on the one in four who said they had borrowed more in the previous 12 months when Premium Credit's Insurance Index last reported in October 2021. However, the data shows the number of people using some form of credit to pay for one or more insurance policy dropped slightly from 69% to 66% over the same period.

Our study found SMEs are borrowing on average around £1,105. Nearly one in ten (9%) SMEs who use credit to pay for their insurance, claim to have borrowed over £3,000. More than one in five (21%) of those companies using credit to pay for their insurance say they have taken on more credit over the past year. However, 24% say they have borrowed less while 37% are borrowing the same amount.

Around two out of five SMEs (37%) expect revenue to increase over the next 12 months with 15% predicting increases of 10% or more. Just 26% believe revenues will fall over the next 12 months while 18% expect them to stay the same and 21% do not know what will happen over the next 12 months.

However late payment of invoices is a growing issue - nearly one in four (24%) SME owners and managers say delays in payment of invoices have got worse in the past year with 5% saying it has become much worse. Just 3% of SMEs say issues with late payment have improved in the past year while 55% say there has been no change.

The main reason for increasing borrowing among personal customers is rising insurance premiums with 27% saying they borrowed more because of that. Around 23% said they borrowed more because credit is cheaper while 23% boosted borrowing because their income has fallen and 6% because they lost their jobs.

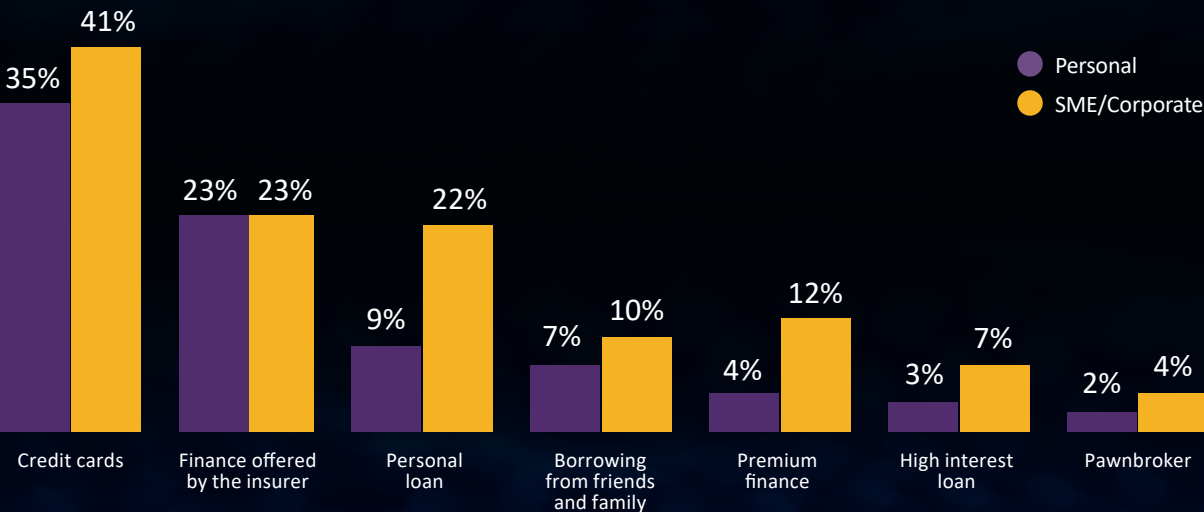
Among the SMEs using more credit, 43% said it is because of the ongoing impact of the COVID-19 crisis followed by 30% who said it was because their firm had taken on more credit for other reasons and did not have the cash to pay for insurance.

Around 29% blamed rising premiums and 28% pointed to a drop in income. Research from October last year found 50% blamed the pandemic impact and 31% rising premiums. Figures from April 2021 showed 73% said the pandemic drove borrowing and 36% said premium rises did.

How are they borrowing?

Our index shows 35% of personal customers who borrow to pay for insurance are relying on credit cards while 41% of SMEs rely on credit cards.

The table below shows how personal customers and SMEs are borrowing.



Jon Howells, Chief Commercial Officer, Insurance Premium Finance, Premium Credit said:

“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 has become a very cost-competitive means for consumers to buy insurance and better manage their finances through spreading payments. At a time when household finances are under pressure it can be a good alternative to other forms of credit.”

Views are changing on credit and shopping around for insurance

For this year's index we looked at attitudes to buying insurance on credit and found major changes.

Nearly one in four personal customers say they are now more accepting of buying insurance on credit than they were a year ago and the main reason is that they believe they have become financially astute.

Four out of ten (41%) of those who have become more accepting say they have become financially savvier as they have had more time on their hands while 28% say they have changed their views because of more credit being available.

Around one in five (22%) say they have changed their views because they are financially better off than they were a year ago while 19% believe interest rates will stay low for longer making buying on credit a good idea.

There's a big change going on in how people are buying insurance too - 43% of insurance customers say they are taking more time to compare prices and the quality of cover since the pandemic started with increased innovation and competition in the industry the main reason for their increased interest.

More than one in four (26%) who are spending more time shopping around say they've switched to using digital platforms during the crisis and have saved money as a result of comparing prices. 36% say they are spending more time shopping around because they have had more time as a result of lockdowns and restrictions.

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

“The COVID-19 crisis has accelerated innovation and the use of technology across many industries and that is being reflected in the insurance market with customers spending more time assessing the most competitive prices and the best quality of cover. A trend that is set to continue during the increasingly tough global economic conditions.”

Strong lending growth across the UK

Analysis of our Insurance Premium lending data shows strong growth in 2021 compared with the previous two years despite the impact of the pandemic and the cost of living squeeze.

Total net advances were 5% higher in 2021 compared with 2020 and 11% higher than in 2019 with commercial net advances performing particularly strong and net policy count increasing.

This points to growing interest from firms and individuals in the benefits of premium finance in the past year. However, we believe that more growth is possible as the penetration of all lending to SMEs and corporates, as well as individuals, is comparatively small.

Too many people and businesses are relying on credit cards and other potentially expensive and inefficient ways of funding insurance premiums.

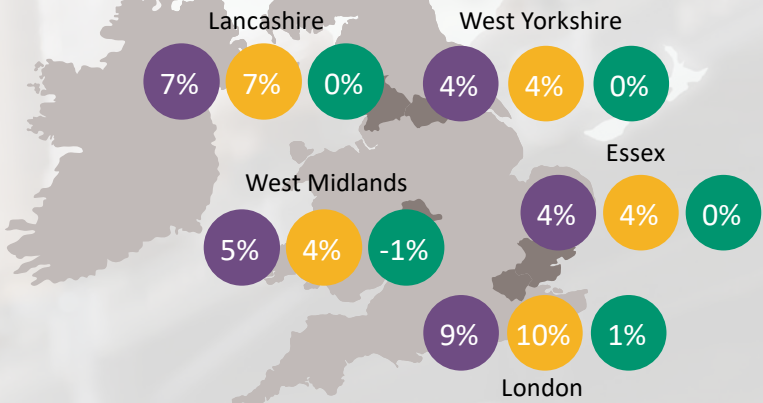
Across the country, London was where we lent the most, with the capital accounting for 10% of total lending – an increase on the 9% it accounted for in 2020. Lancashire was the second strongest region for us, accounting for 7% of all lending compared with 7% the previous year. The top five counties remained the same as in 2020.

The construction industry was the strongest for lending accounting for 9% of all lending in 2021 which was slightly higher than in 2020. We saw strong growth in lending to the professional and scientific sector which moved from fourth biggest in 2020 to second in 2021. It accounted for 7% of lending compared with 5% previously. The miscellaneous category was ranked fifth in 2020.

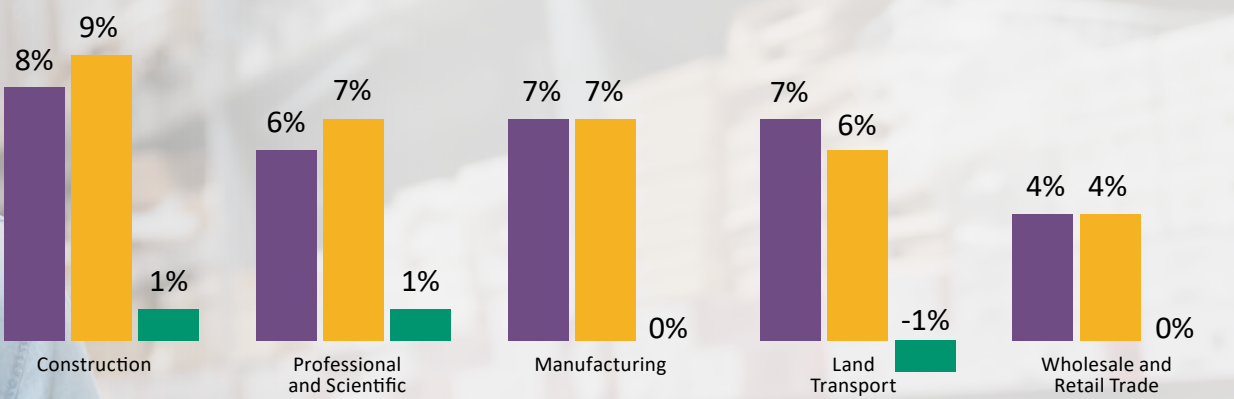
The tables below show the top five counties and top five sectors for lending in 2020 and 2021.

County

- 2020 %
- 2021 %
- Variance



Industry



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

“More customers are becoming confident about using credit to buy insurance but at the same time getting credit and credit cards in particular is becoming more difficult.

“Our own lending figures show that Premium finance is playing an increasingly important role in helping businesses and consumers to manage cashflow and continue to afford important insurance policies at a time when households and businesses face increasing financial pressure.”

Conclusion – a growing role for premium finance

Premium finance plays an increasingly important role in helping SMEs and corporates as well as individuals to manage the cost of buying insurance.

It enables customers to pay monthly for cover instead of in a lump sum for a small charge and is a very cost competitive means 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 SMEs and corporates, as well as some individuals, it can be a good alternative to other forms of credit.

Research for the index shows the potential pitfalls of using other forms of credit – around one in twenty (5%) personal customers who used credit to pay for one or more insurance policy said they had defaulted on repayments during the past year while the same number think they will miss repayments in the year ahead.

Getting a credit card has become tougher since the COVID-19 crisis started – around one in seven adults (14%) say they have been rejected for a card in the past two years compared to 7% who have been turned down for loans or overdrafts. Around one in ten adults say it has become harder getting credit in general since the crisis began.

The biggest risk, however, is still not buying insurance and being left without cover. Being underinsured or not having any insurance can be very costly as unfortunately many have found out.

Around one in twelve (8%) personal customers 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. Around one in eight (12%) have not been able to make claims in the past five years either because they had no cover or had inadequate cover.

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.

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

“With world class capabilities, the British insurance broking community is extremely well placed to service the nation’s insurance needs. Premium finance has an increasingly important role to play in providing customers access to 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 know our members are being well served in offering Premium Credit’s award-winning flexible payments to customers.”



About Premium Credit Limited

Premium Credit is a leading provider of insurance premium finance and a range of annually charged services, including tax, regulatory and accountancy fees, sports season tickets, memberships and school fees in the UK and Ireland. Each year, we lend more than £3.8 billion to over two million customers through a network of almost three thousand partners and process almost 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

- Independent consumer research conducted by Consumer Intelligence among a nationally representative sample of 1,026 aged 18-plus between March 11th and 13th 2022
- Independent research conducted by Consumer Intelligence online among 745 SME owners and managers between March 11th and 16th 2022
- Independent consumer research conducted by Consumer Intelligence online among a nationally representative sample of 1,017 adults aged 18-plus between October 1st and 4th 2021
- Independent research conducted by Consumer Intelligence online among 737 SME owners and managers between October 1st and 5th 2021
- Independent research conducted by Consumer Intelligence online among a national representative sample of 1,014 adults aged 18-plus between March 26th and 29th 2021
- Independent research conducted by Consumer Intelligence online among a nationally representative sample of 1,085 adults aged 18-plus on August 20th, 2020
- Independent research conducted by Consumer Intelligence online among a nationally representative sample of 1,085 adults aged 18-plus between March 12th and 13th 2020
- Independent research conducted by Consumer Intelligence online among 291 SME owners and managers between April 1st and 3rd 2021
- Analysis of Premium Credit's own data for 2019 and 2020
- Independent research conducted by Consumer Intelligence online among 156 SME owners and managers between August 20th and September 3rd, 2020