LCP powering possibility

Under pressure: Market outlook for personal lines insurance

LCP's annual market projections of motor, home and pet insurance in the UK

Introduction

It continues to be a challenging and dynamic market for personal lines insurers to navigate. Following significant rate increases in 2023 and early 2024, premiums have stabilised, but claims costs continue to rise, meaning insurers remain under pressure.

In a challenging environment, stepping back to reflect on broader market trends is an essential part of ensuring you remain competitive in the coming years.

This report considers the key drivers of recent historical performance and provides our projections of market performance over 2025 and 2026.

We have considered premiums, claims projections and other factors feeding into the market net combined operating ratio. In addition, we highlight current and emerging hot topics across motor, home and pet insurance that insurers should proactively consider as they plan for 2026 and beyond.

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

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

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Data & limitations

Data:

This report uses publicly available financial data, SFCRs and ABI data.

Solvency UK:

- The transition from Solvency II to Solvency UK introduces potential inconsistencies in how insurers allocate and report expenses. As a result, comparisons between 2023 and 2024 data may be affected by changes in regulatory definitions rather than underlying performance movements.
- In addition, Solvency UK no longer provides net claims data on a discounted basis, split by line of business. Our report uses net undiscounted data for 2024.
- Under Solvency II, insurers were not required to separate personal and non-personal lines. The 2024 Quarterly Reporting Templates (QRTs) under Solvency UK, are the first year in which we can collect distinct personal lines information.

Limitations:

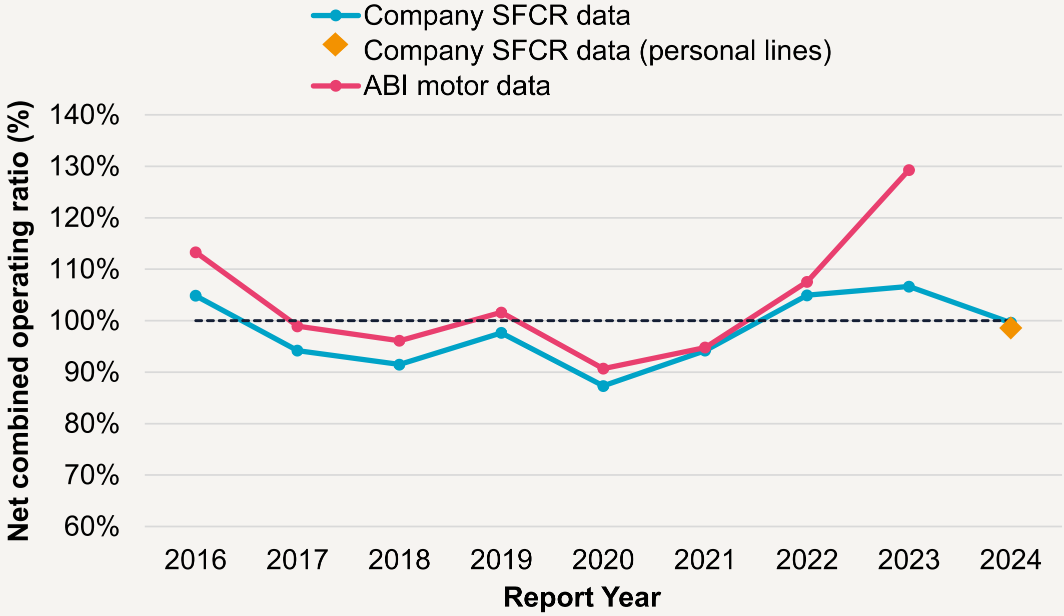
- QRTs remain a key source for insurer financial data but continue to exhibit inconsistencies across firms and reporting periods. While we have applied data cleansing and validation checks, there may still be residual inaccuracies in individual firms' data which could influence overall results.
- Readers are encouraged to consider these projections alongside their own internal data and market intelligence.

Contents

Motor - key highlights

Recent performance

The motor market net combined operating ratio (COR) improved in 2024, returning to profitability for the first time since the Covid-19 pandemic. Higher inflation and supply chain disruption drove the market COR above 100% in 2022 and 2023. Significant rate increases restored profitability in 2024. There is a notable divergence between ABI and Solvency II CORs in 2023, reflecting methodology differences.



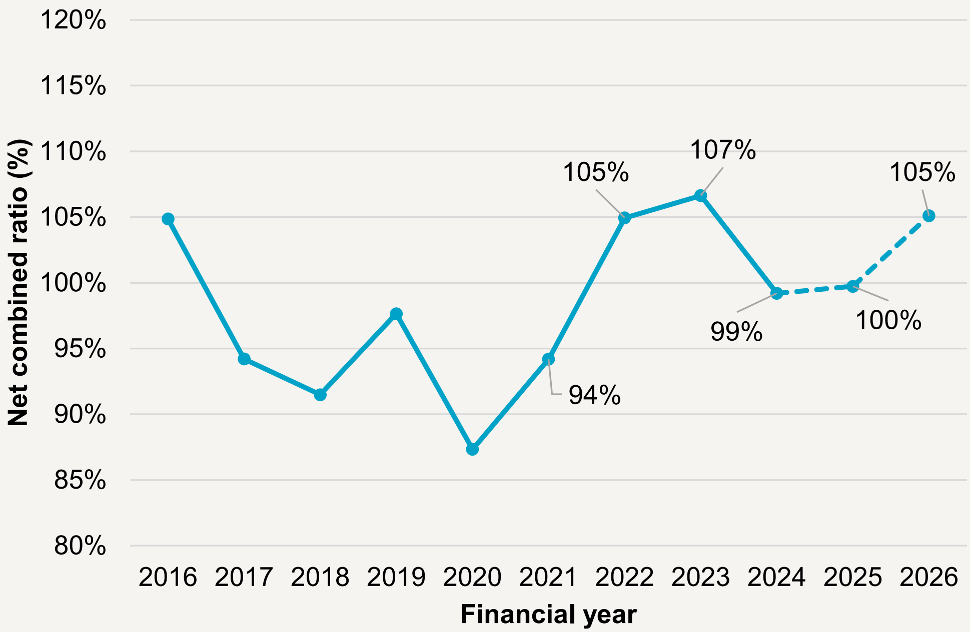
Note: SFCR data includes both personal and commercial motor business.
From 2024, Solvency UK reporting separates personal and non-personal line business.

Future projections

We expect the market to break even in 2025 (100% COR) and return to loss-making territory in 2026 (105% COR), driven by:

- The softening market
- Assumed flat rate increases
- Persistent inflationary pressures

Net combined operating ratios

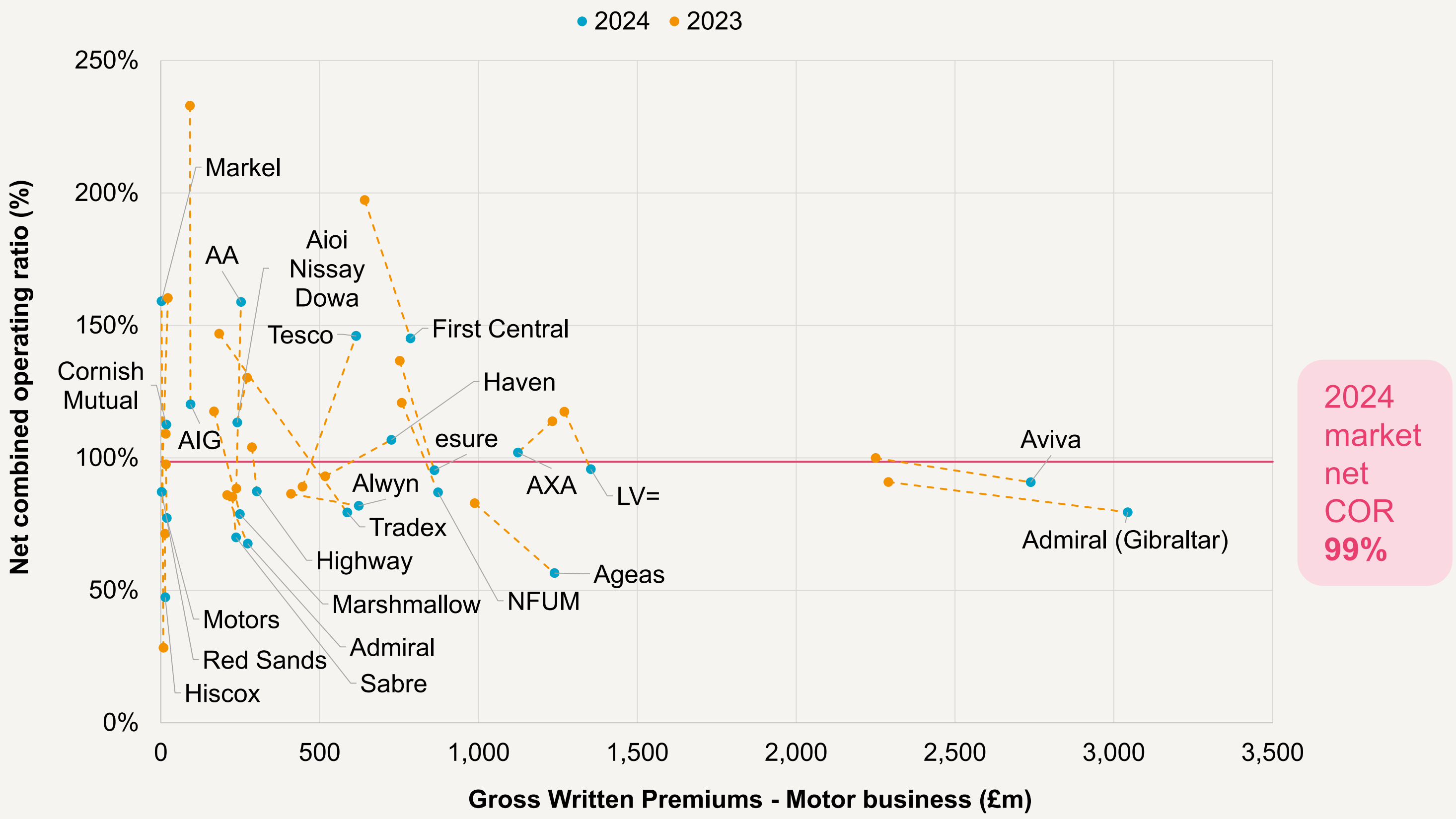


Source: 2024 & prior net combined ratios based on company annual SFCRs via Solvency II Wire Data

Motor - recent performance

The chart below shows the net combined operating ratio and gross written premium for a sample of individual insurers in 2023 and 2024. The **pink line** shows the aggregate market net combined ratio for this sample.

Review of 2024 performance



Highlights

Around half of insurers in this sample **grew their gross written premium from 2023 to 2024.**

Improvements in net combined operating ratios have been driven by premium rate increases. **Expenses per policy have been stable between 2023 and 2024.**

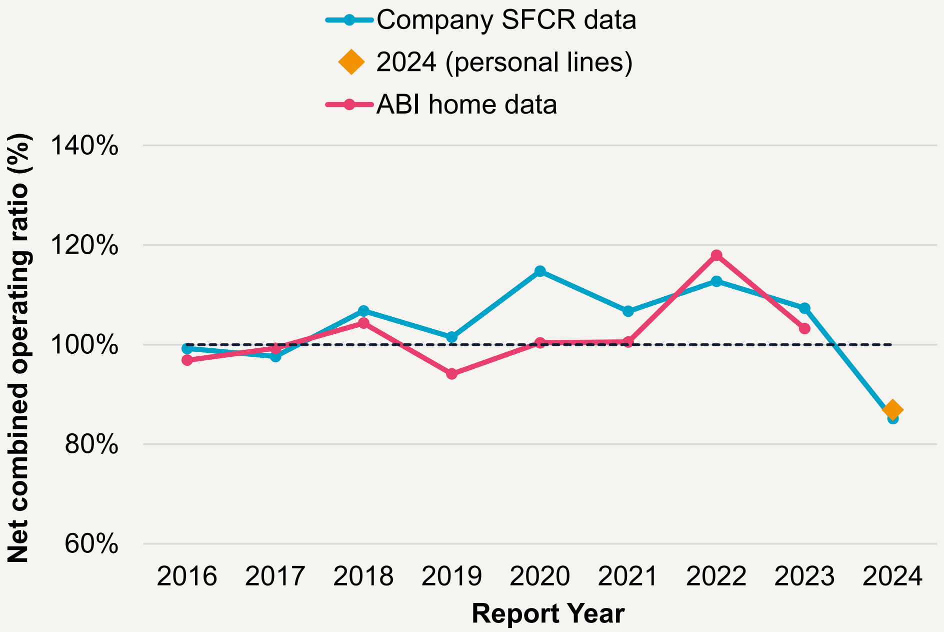
Loss ratios fell in 2024 as insurers reacted to ongoing inflation and supply chain disruptions by **significantly increasing premiums.**

Changing driving patterns post-pandemic have also played a role in shaping performance in 2023 and 2024.

Home - key highlights

Recent performance

Year-on-year volatility has been driven by weather experience, the Covid-19 pandemic and high inflation. The 2024 COR is lower as the expense ratio taken from SFCRs only includes acquisition costs, commissions and claims management costs rather than total technical expenses.

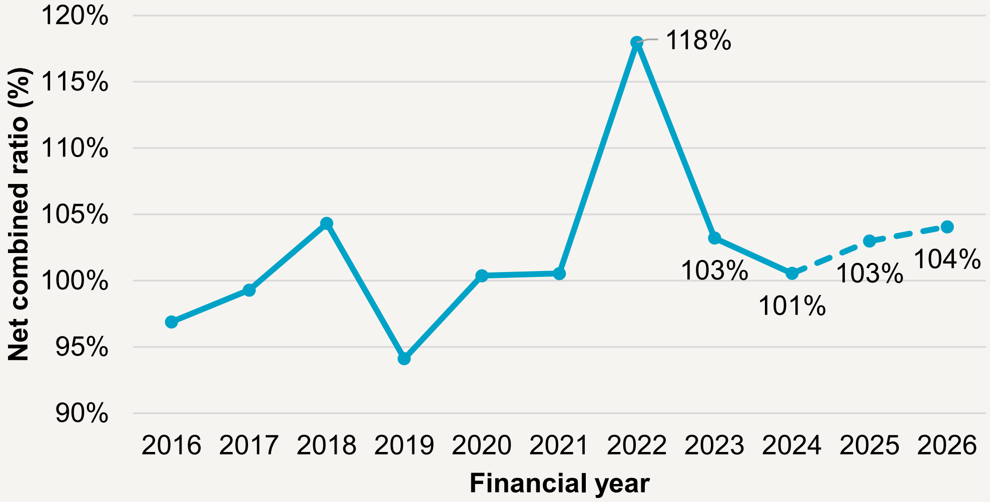


Future projections

Our expectation is an increase in net combined operating ratios (COR) for 2025 (103%) and 2026 (104%), driven by:

- Higher burning cost projections due to claims severity inflation
- Expected subsidence claims in 2025
- An allowance for an increase in prior year provisions

Net combined operating ratios



Note: ABI data is for home only. SFCR data for 2023 and prior is for "fire and other damage to property". It will include both home and commercial property insurance. From 2024, the SFCR data is for home only, due to Solvency UK reporting changes.

Source: 2024 & prior net combined ratios based on company annual SFCRs via Solvency II Wire Data

UK home/commercial recent performance

The chart below shows the net claims ratio and gross written premium for a sample of individual insurers in 2023 and 2024. The **pink line** shows the aggregate market net claims ratio for this sample.

Review of 2024 performance

Highlights

Insurers reacted to **high inflation and increasing claims costs** by increasing premiums. Most insurers in this sample **grew their gross written premium from 2023 to 2024.**

From 2023 to 2024, **64% of insurers in the sample saw an improvement in their loss ratios, driven by higher premiums and lower expenses.**

The net combined ratio for the home market improved from 2023 (103% COR) to 2024 (101% COR), reflecting the improvements in loss ratios observed over the same period.

Hot topics for the 2025 year-end

Motor

The Personal Injury Discount Rate (PIDR) for England and Wales was raised to +0.5% in January 2025, reducing long-term claims costs. **The Whiplash tariff increased by around 15% in May 2025**, although small bodily injury claim frequencies continue to decline.

Telematics and usage-based insurance remain a key part of pricing strategies for younger and higher-risk drivers. The **use of AI and automation** in claims handling and underwriting is becoming more mainstream.

After steep increases in 2022 and 2023, **premiums peaked in 2024**. Ongoing pressures on claims include higher repair and labour costs, alongside continuing inflation in parts and supply chains.

20mph speed limits are contributing to **fewer accidents and lower average premiums**. **Uninsured drivers and micro-mobility claims continue to rise**.

Home

Increased instances of extreme weather are driving higher claims, with climate resilience measures on the rise. Record temperatures in the spring of 2025 are also expected to lead to a **spike in subsidence claims**.

The pricing practices review in 2021 significantly altered renewal pricing strategies. **Premiums rose in 2023 and 2024** to catch up with inflation but are **now softening, with decreases expected in 2025**.

Smart home technology has had a dual effect on the market, reducing some types of claims but also increasing repair costs.

Remote work during the pandemic reduced burglary but increased home accidents. Rising building costs from inflation, supply chain issues and tariffs mean **claims inflation** for some damage types is **now outpacing standard construction indices**.

Hot topics for the 2025 year-end (continued)

Pet

The CMA (Competition and Markets Authority) **Vet investigation is due to provide provisional findings in September 2025**. The investigation was prompted by concerns around competition, transparency and customer outcomes.

Complaints against pet insurers have been increasing. **Insurers need to ensure their policies are offering value for money** following concerns over premium increases and customer understanding of policies.

The pet market is becoming more competitive. **Innovation is required** to improve pricing processes and ensure that claims processess are efficient.

Remote consultants bring opportunities to manage costs at an earlier stage in the process. This follows a relaxation on rules on vets having to see pets in person.

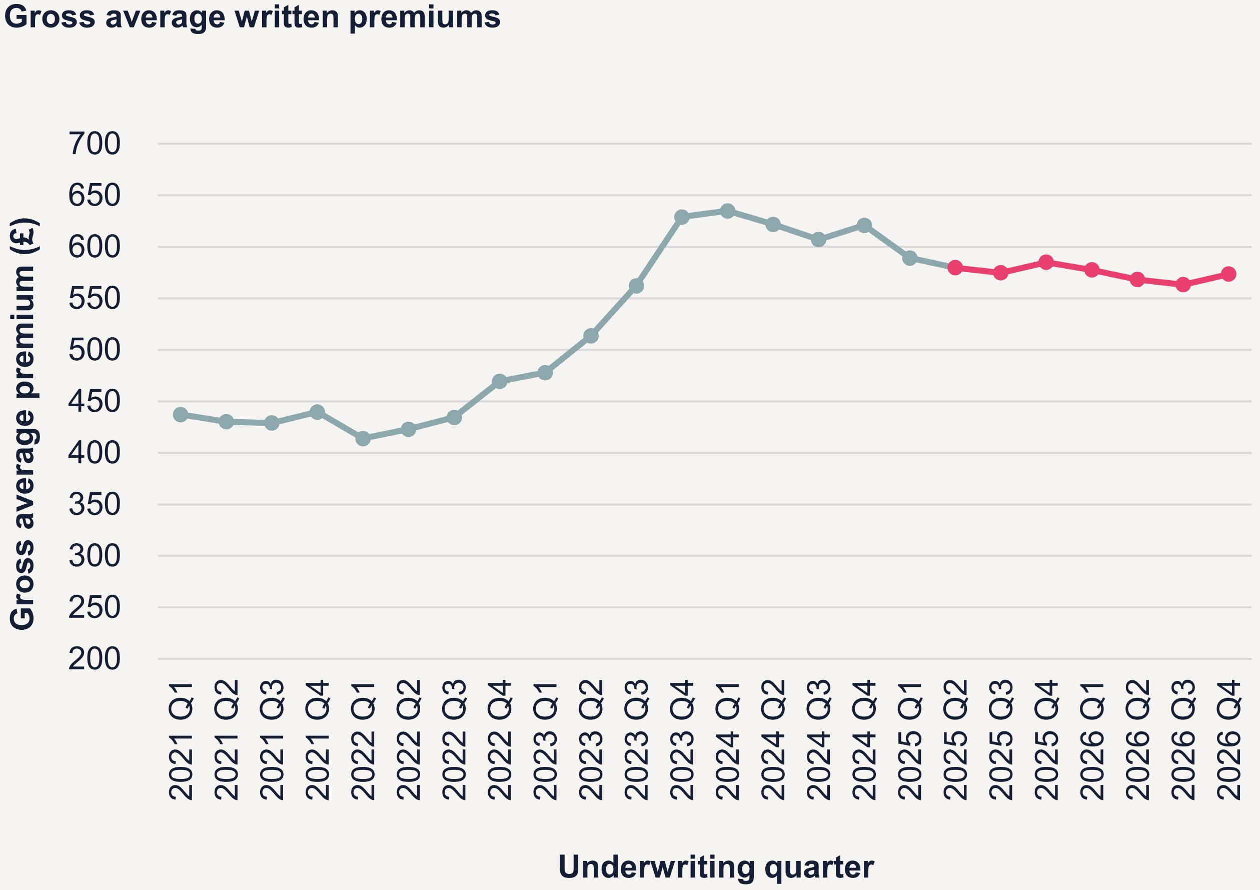
Motor projections

Stability in motor trends masks deeper structural changes, from advanced driver-assistance systems and road safety changes to electric vehicle adoption and persistent repair cost inflation. How insurers adapt to these shifts will define performance over 2026 and beyond.

Katie Garner, LCP

Motor – written premiums

The following chart shows gross average premiums by underwriting quarter from 2021 Q1 to 2025 Q1, including our projections for 2025 Q2 to 2026 Q4.



Source: ABI motor premium and claims tracker – Q1 2025

Key highlights

Strong increases in average premiums over 2023 in response to high claims inflation.

Written premiums flattened off in 2024 Q1 as the market turned and have softened over 2024 and early 2025.

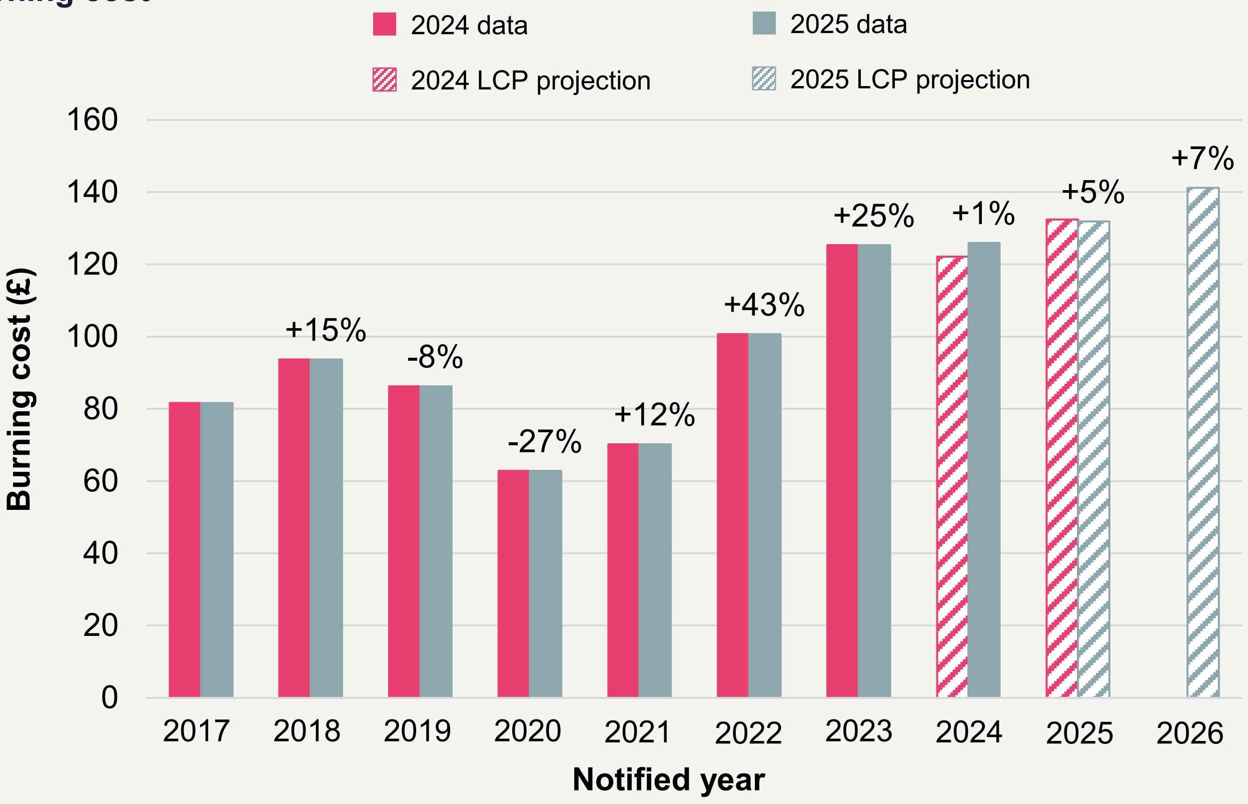
We see little sign of the market hardening and have trended a relatively flat average premium through 2025 Q3 and 2026 Q4.

We expect the market to be loss-making in 2026, but not to trigger immediate rate increases. Better-performing firms will keep rates low to maintain volume. Higher investment returns and reserve releases will also keep rates down.

Motor – accidental damage

Accidental damage (AD) claim trends have been distorted by the Covid-19 pandemic and the resulting longer-term changes to driving habits. We expect an increasing burning cost on AD in 2025 and 2026. The increases are due to inflation in average claim size, which in turn is due to ongoing challenges with supply chains and labour shortages as well as increasing complexity of vehicles.

Burning cost



Source: ABI motor premium and claims tracker – Q1 2025

Key highlights

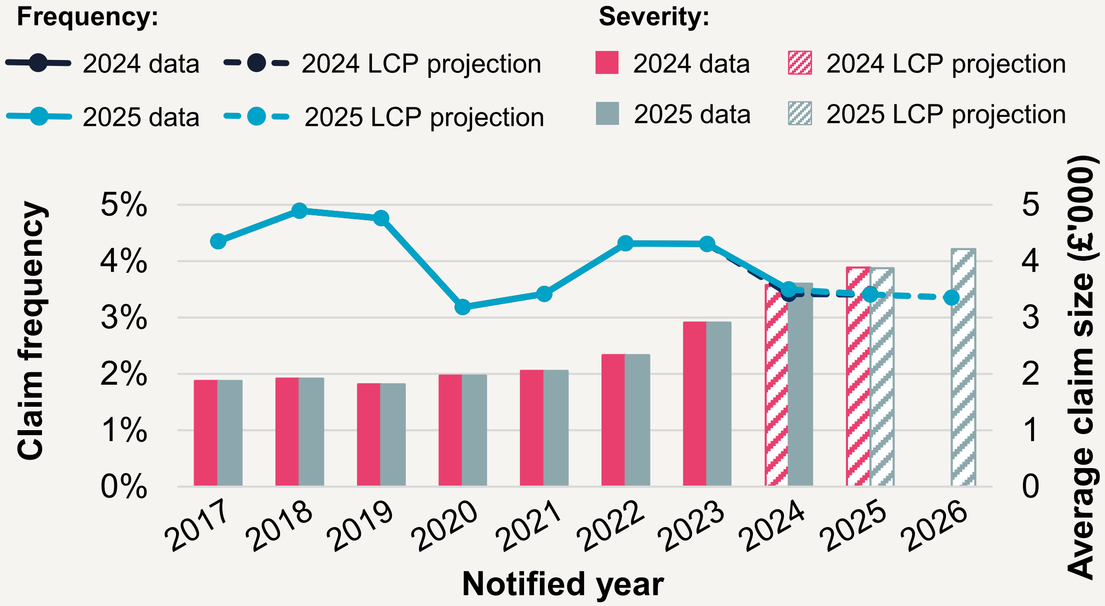
Slowdown in burning cost inflation in 2024, driven by **significant reduction in claim frequency between 2023 and 2024.**

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

We expect **burning cost inflation to return to an upward trend in 2025 and 2026** driven by a levelling-off in claim frequency and continued severity inflation.

Motor – accidental damage

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2024	-19%	+24%	+1%
2025	-3%	+8%	+5%
2026	-2%	+9%	+7%

Source: ABI motor premium and claims tracker – Q1 2025

Frequency

- The general **reductions in frequency since 2019 are driven by several factors**, including improvements in vehicle safety and changing traffic volumes/patterns following the pandemic.
- Frequency **decreased from 2023 to 2024**, coinciding with a notable increase in claim severity.
- **We don't consider the improving frequency trend to be sustainable** and therefore we are assuming broadly flat claim frequency from 2025 into 2026.

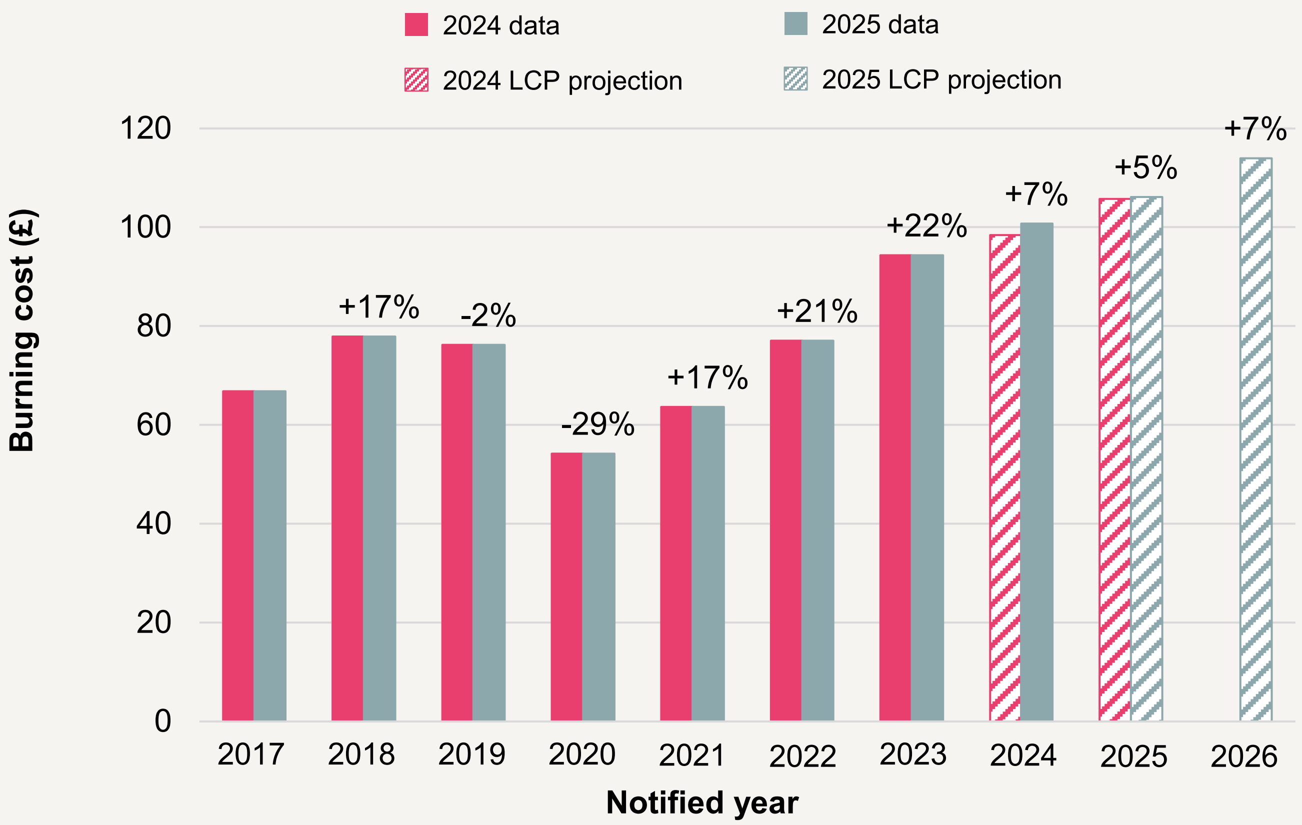
Severity

- After a period of high inflation and a notable increase in claim severity from 2023 to 2024, **claim severity inflation is expected to stabilise in 2025 and 2026**. We are assuming that **claim severity inflation has now returned to more normal levels** going forwards.
- In particular, 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.
- The threat of increasing global trade barriers as a result of increased tariffs may result in further inflationary pressure on car parts. However, the timing, scope and scale of such changes remain highly uncertain.

Motor – third party damage

Like AD, third party damage (TPD) trends have been 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



Source: ABI motor premium and claims tracker – Q1 2025

Key highlights

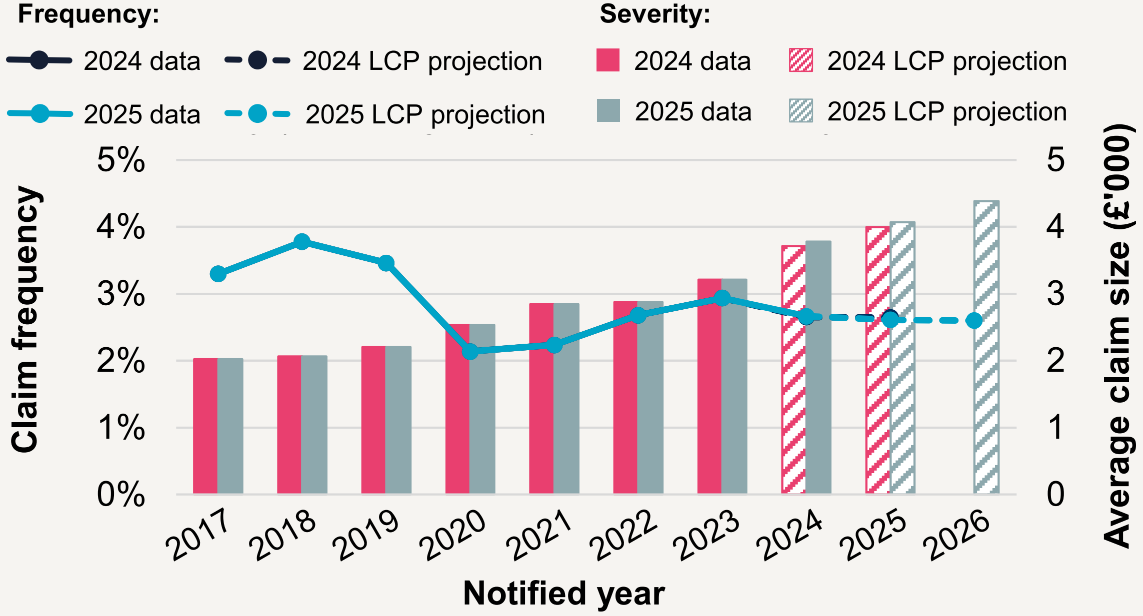
Slowdown in burning cost inflation in 2024, driven by **downward trend in claim frequency**.

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

We expect **similar burning cost inflation in 2026** (+7%) due to assumed levelling-off of claim frequency and reductions in severity inflation.

Motor – third party damage

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2024	-9%	+18%	+7%
2025	-2%	+8%	+5%
2026	0%	+8%	+7%

Source: ABI motor premium and claims tracker – Q1 2025

Frequency

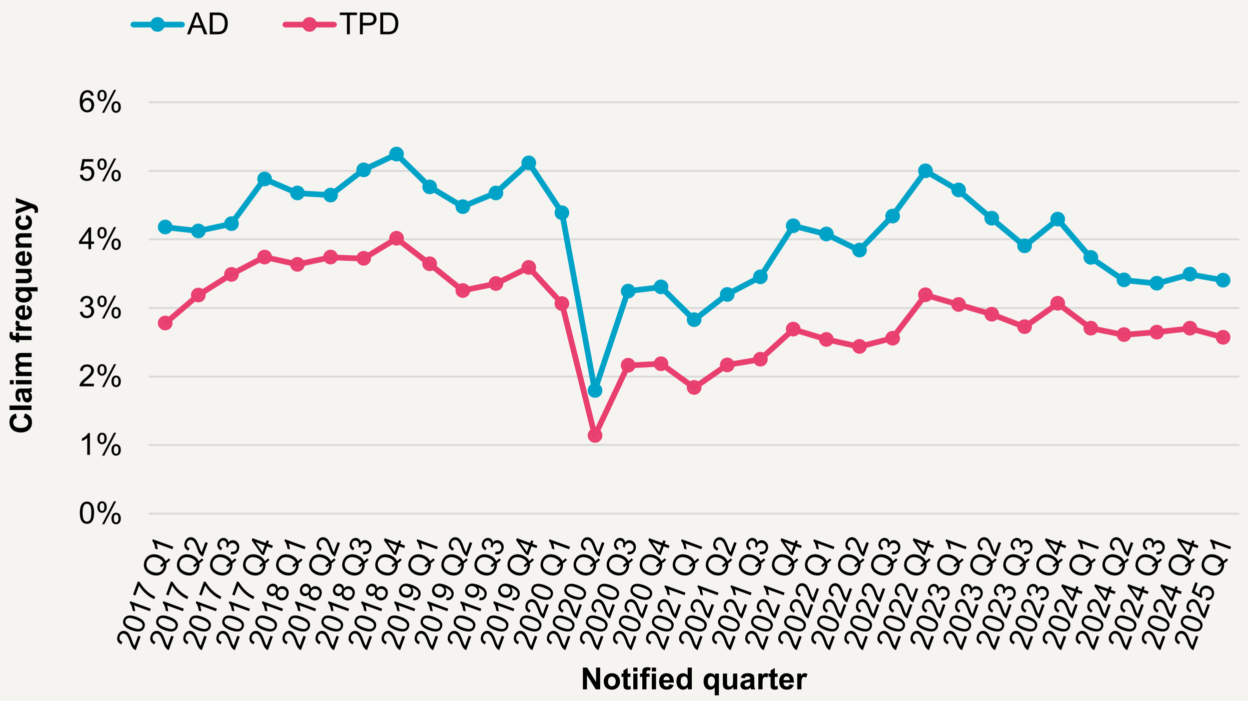
- The general **reductions in frequency since 2019 are driven by similar factors to those on AD**, including improvements in vehicle safety and changing traffic volumes/patterns.
- In addition, **changes to driving habits post-pandemic appear to have resulted in greater frequency reductions on TPD** 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 2026.

Severity

- After a period of high inflation and a notable increase in claim severity from 2023 to 2024, **claim severity is projected to stabilise in 2025 and 2026**.
- We are assuming that **claim severity inflation has now returned to more normal levels** going forward. In particular, we assume that severity inflation for TPD claims will be 5% pa higher than CPI.

Motor – third party damage

Claim frequency – AD vs TPD – quarterly



Source: ABI motor premium and claims tracker – Q1 2025

In focus – AD vs TPD frequency trends

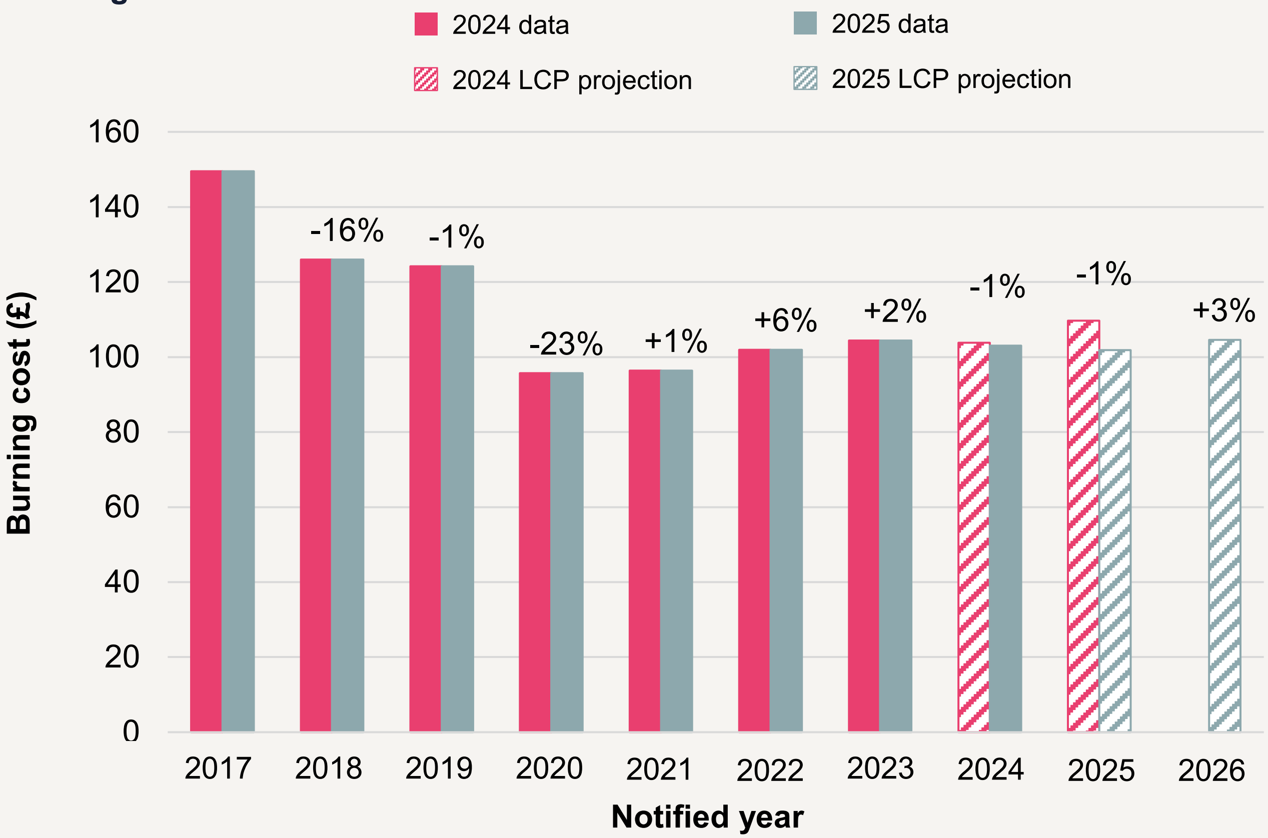
Claim frequency for AD and TPD follows broadly similar patterns. However, there are some notable differences:

- 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 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.

Motor – bodily injury

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 are various different factors affecting the frequency and severity trends for small and large BI claims.

Burning cost



Source: ABI motor premium and claims tracker – Q1 2025

Key highlights

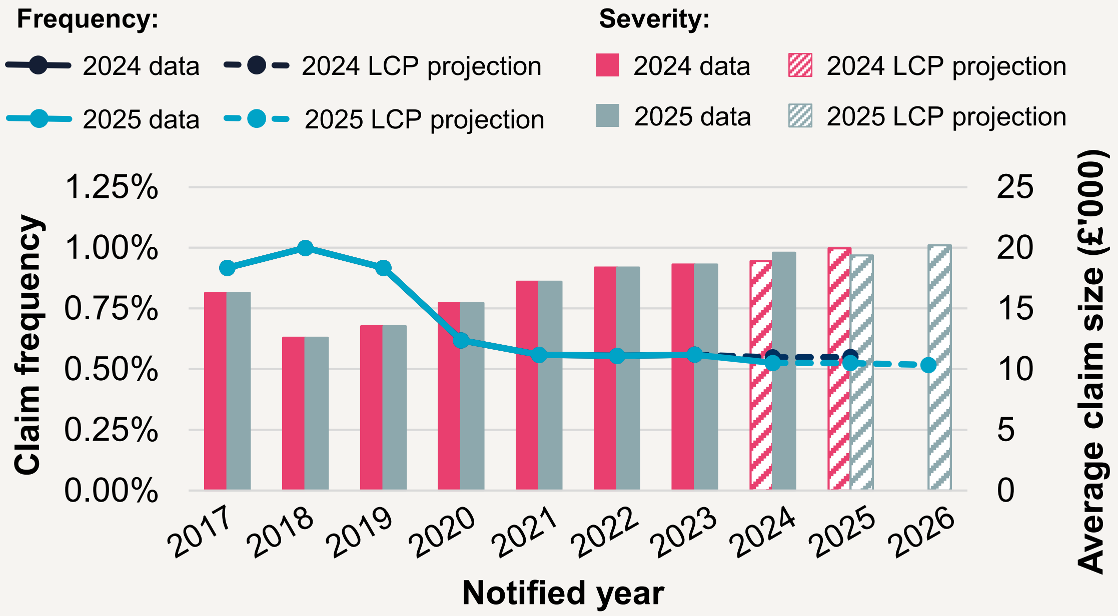
Lower burning costs post-pandemic are due to a combination of **reduced third party accidents** and the **impact of the whiplash reforms**.

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

Burning costs for 2024 and 2025 are lower due to **savings from the increase in the personal injury discount rate (PIDR) from -0.25% to +0.5%.**

Motor – bodily injury

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2024	-6%	+5%	-1%
2025	0%	-1%	-1%
2026	-2%	+4%	+3%

Source: ABI motor premium and claims tracker – Q1 2025

Frequency

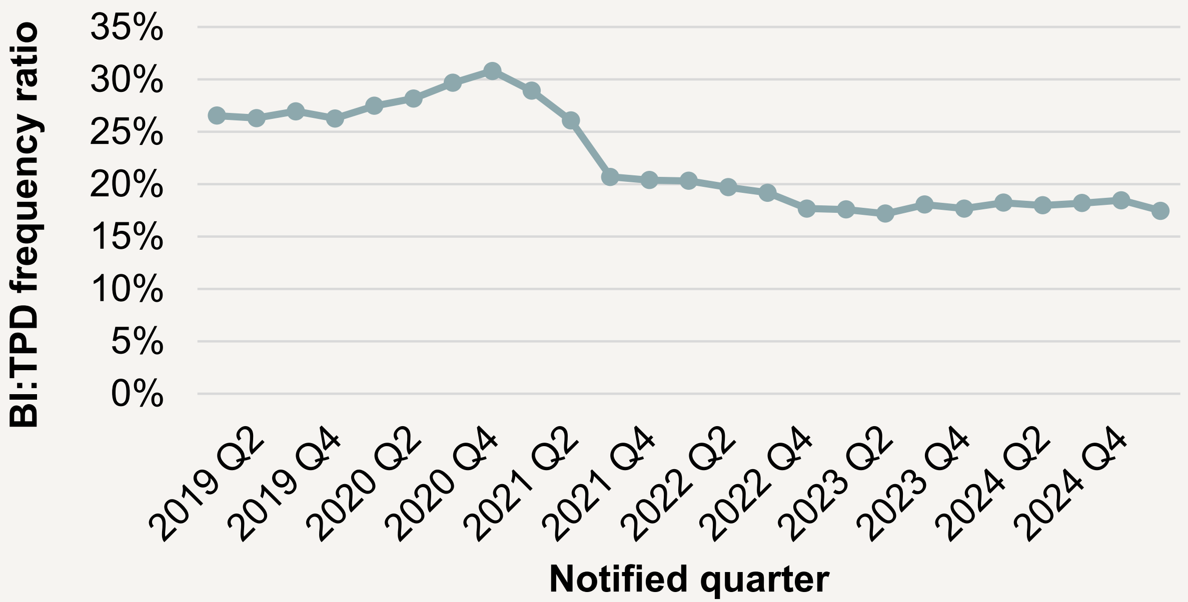
- Frequency relatively flat post-Covid despite increasing traffic volumes. This is due to the introduction of the **whiplash reforms**, effective from 31 May 2021, which resulted in a c.20% reduction in BI frequency.
- We are assuming **claim frequency continues to be broadly flat** into 2026.

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. Claims have faced upward pressure from inflation eg +22% in General Damages in early 2024 and a c.15% increase to the whiplash tariff from 31 May 2025.
  - **Larger BI claims** – these typically include significant elements of loss of earnings and cost of care, which are more closely linked to wage inflation. The increase in the PIDR in England and Wales should also reduce the severity of larger BI claims.

Motor – bodily injury

Ratio of BI:TPD 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.

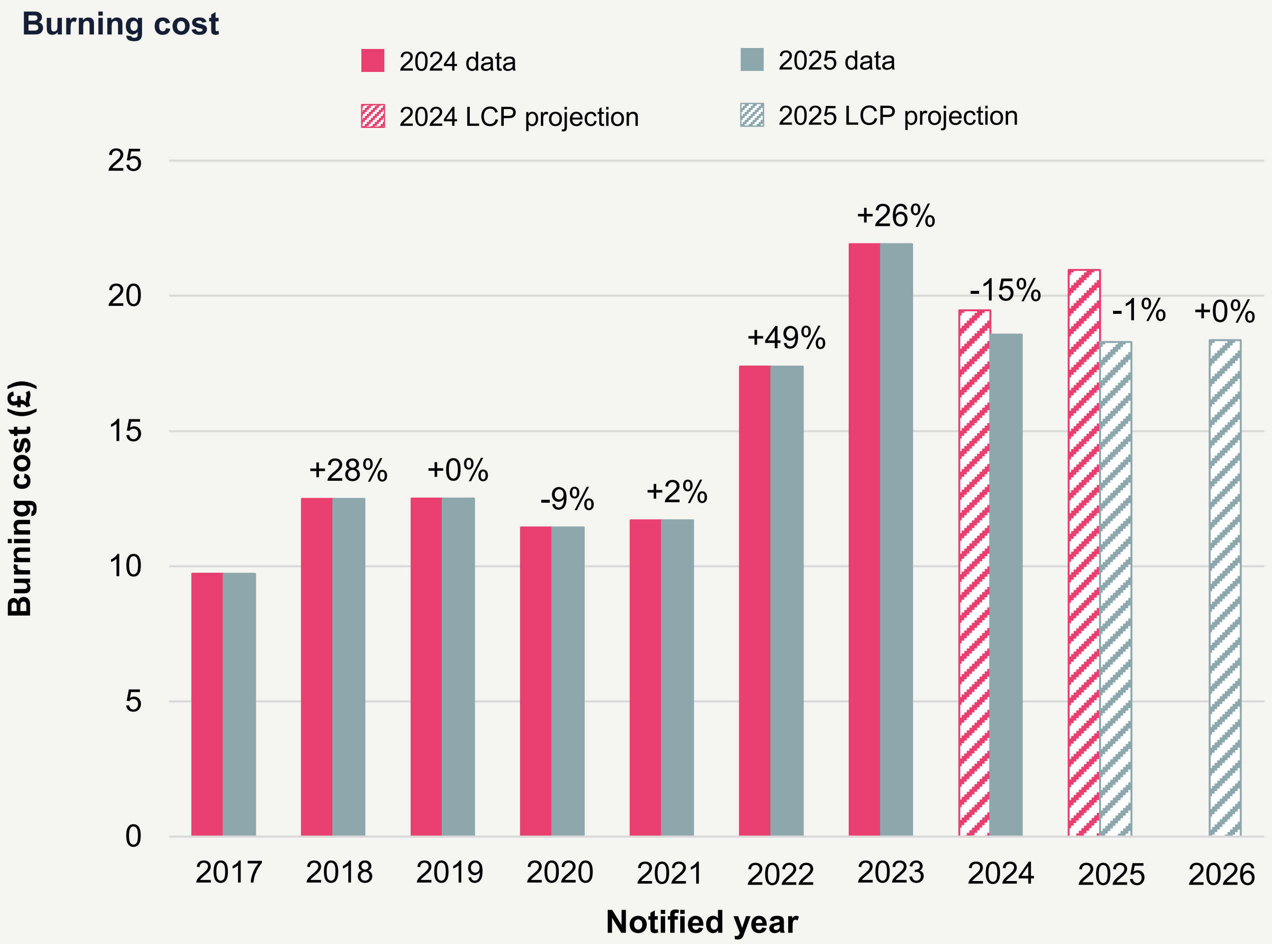
In focus – whiplash reforms

- 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**, effective from 31 May 2021.
- Since 2021 Q3, the ratio has generally decreased further, demonstrating 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, **estimates indicate that the whiplash reforms have reduced BI burning costs by around £15 to £20 per policy**.

Source: ABI motor premium and claims tracker – Q1 2025

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.



Source: ABI motor premium and claims tracker – Q1 2025

Key highlights

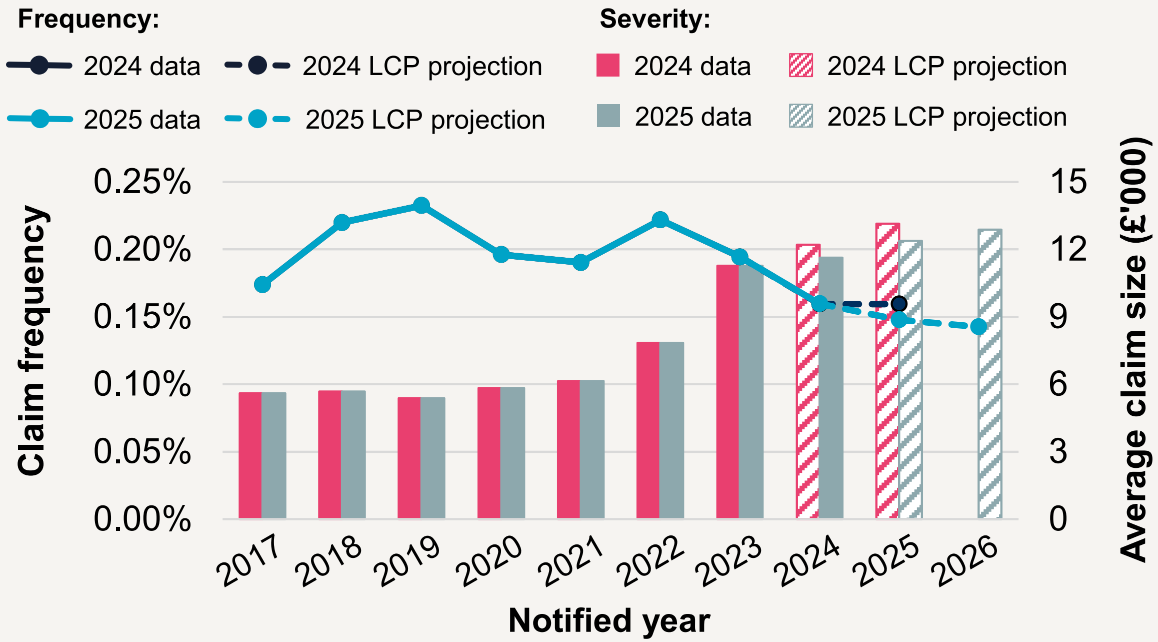
Very high burning cost inflation in 2022 and 2023 due to increases in frequency and the increasing cost of replacing stolen vehicles and parts.

Frequency reducing from 2024 onwards leading to lower burning costs.

We expect **burning costs to stabilise from 2025**, with decreasing frequency offsetting increasing severity.

Motor – theft

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2024	-18%	+3%	-15%
2025	-8%	+6%	-1%
2026	-3%	+4%	0%

Source: ABI motor premium and claims tracker – Q1 2025

Frequency

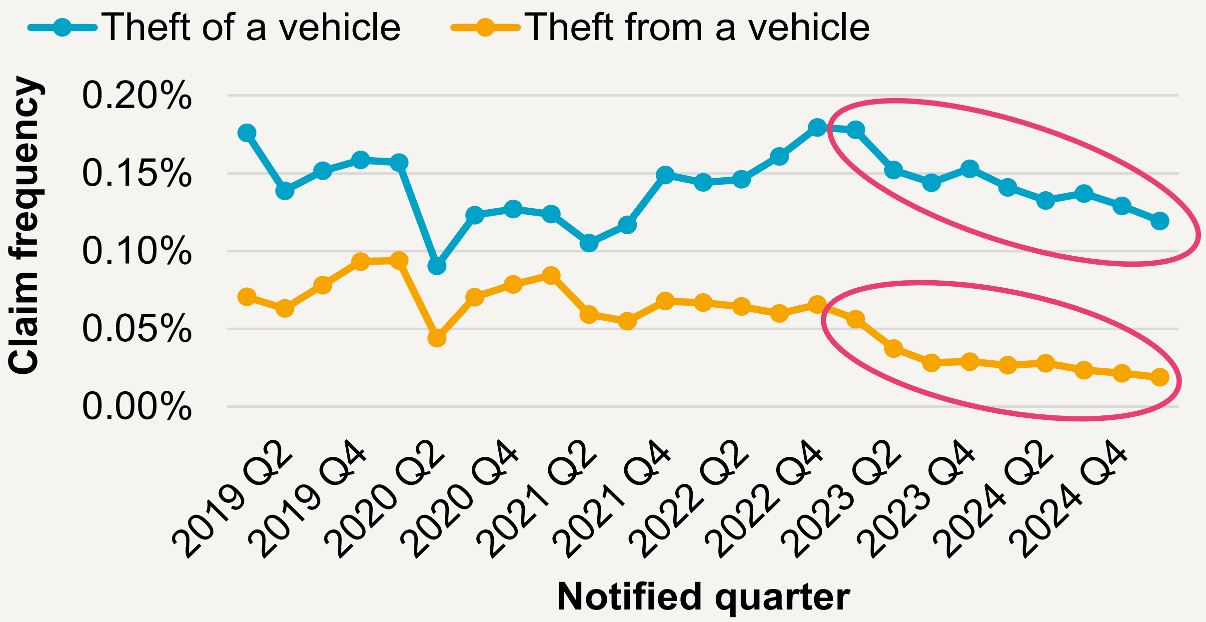
- **Post-pandemic, theft rates increased**, driven by increased car usage and general increases in crime rates.
- **Increasingly sophisticated methods of vehicle theft**, including keyless entry exploitation, increased theft rates on high-value vehicles.
- Vehicle theft frequency **fell significantly in 2023 and 2024** as manufacturers responded to prior increases with **increased security measures**.
- We are projecting theft frequency to **continue decreasing into 2026**, although less sharply than in 2023 and 2024.

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**.
- We are assuming that **claim severity inflation has now returned to more normal levels** going forwards. In particular, we assume that severity inflation for theft claims will be 5% pa higher than CPI.

Motor – theft

Claim frequency - quarterly



In focus – claim frequency trends

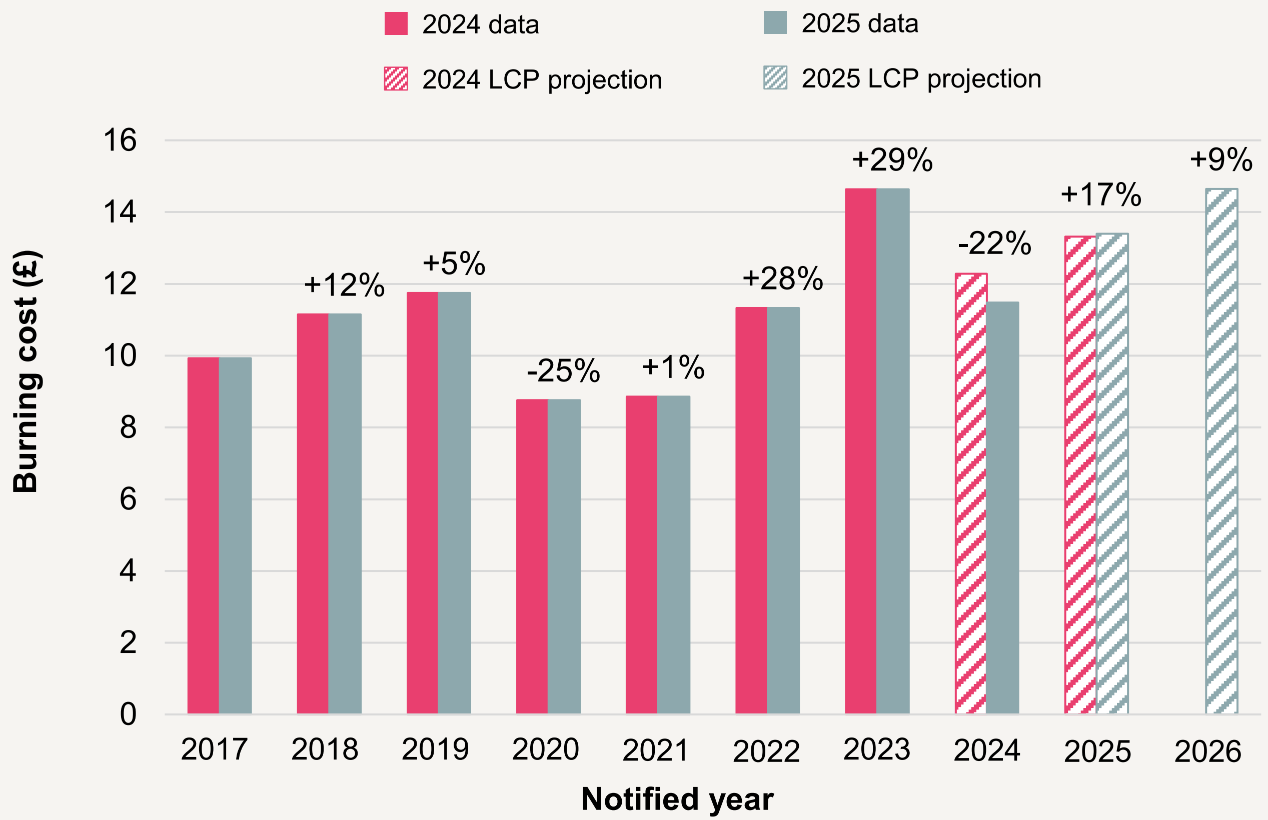
- The chart shows claim frequency for both theft of a vehicle and theft from a vehicle.
- **Both theft of a vehicle and theft from a vehicle have shown strong decreasing trends since 2023.**
- Improvements in vehicle security and tracking technologies (eg GPS and telematics) have increased theft recovery rates.

Source: ABI motor premium and claims tracker – Q1 2025

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



Source: ABI motor premium and claims tracker – Q1 2025

Key highlights

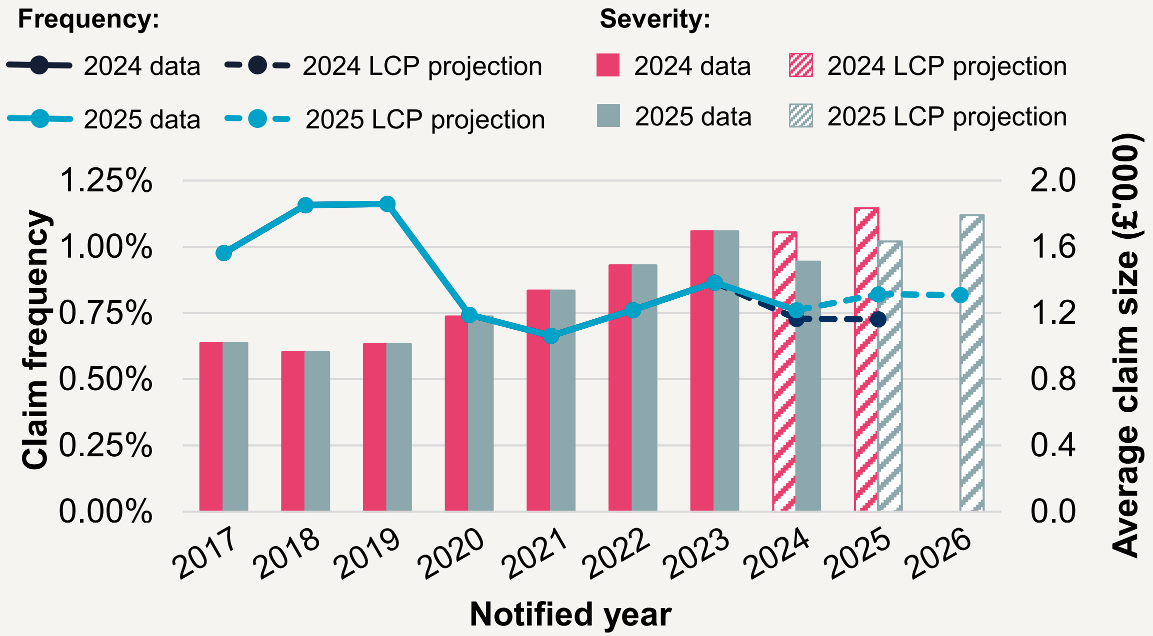
High burning cost inflation in 2022 and 2023, driven by **increasing claim frequency post-pandemic and delays in repairs leading to longer hire durations**.

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 (+17%) due to assumed increases in claim frequency and severity. **Burning cost inflation of 9% in 2026** due to continued severity inflation but levelling-off of claims frequency.

Motor – replacement vehicle

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2024	-12%	-11%	-22%
2025	+8%	+8%	+17%
2026	0%	+10%	+9%

Source: ABI motor premium and claims tracker – Q1 2025

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.
- Frequency **slightly decreased in 2024** but is **assumed to rise in 2025 and remain broadly flat in 2026**.

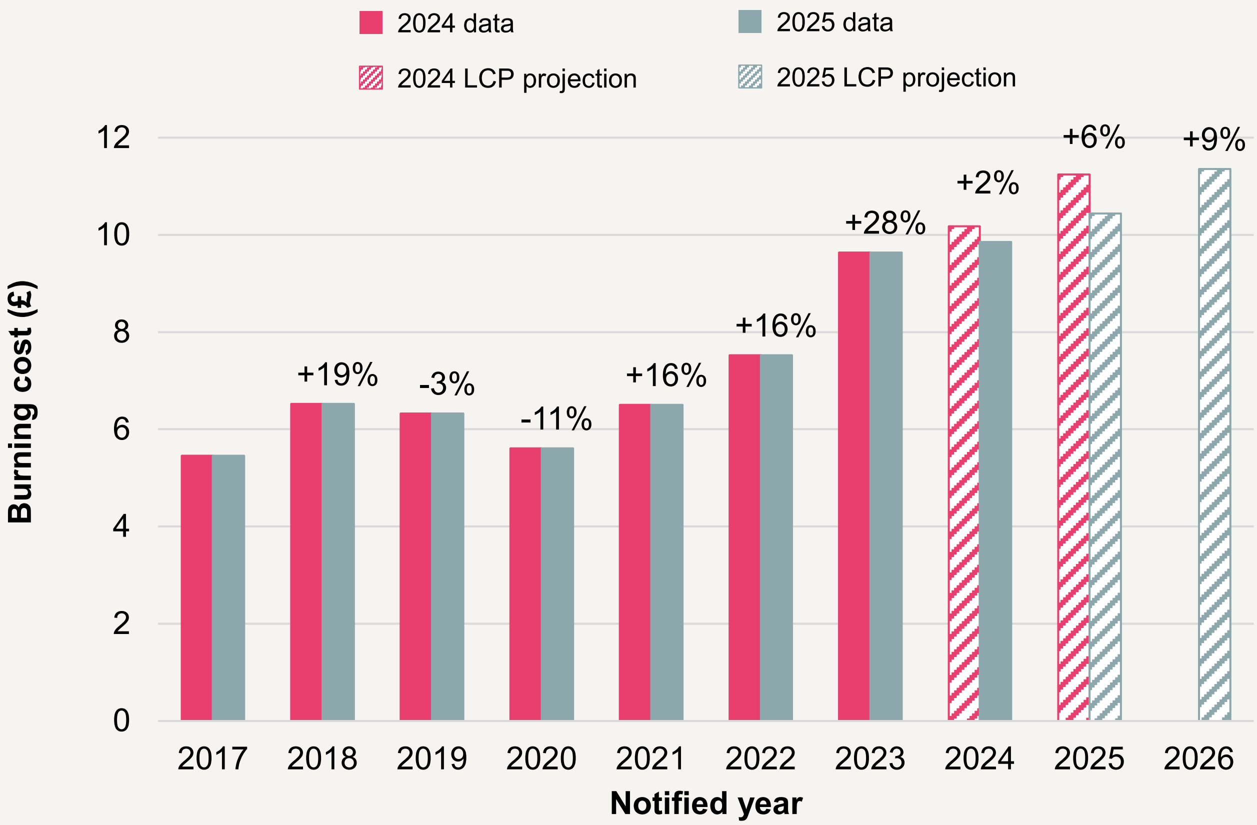
Severity

- 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.
- Although **claim severity decreased in 2024**, we assume this decrease is a one-off effect, and expect **severity to rise going forward** due to ongoing inflation and supply chain pressures.
- Severity inflation for replacement vehicle claims is projected at 6% per year above CPI.

Motor – windscreen

Windscreen claims represent a relatively small portion of total costs, with burning cost for 2024 less than £10 per vehicle year. However, repairs have become increasingly expensive in recent years, and we expect this trend to continue.

Burning cost



Key highlights

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

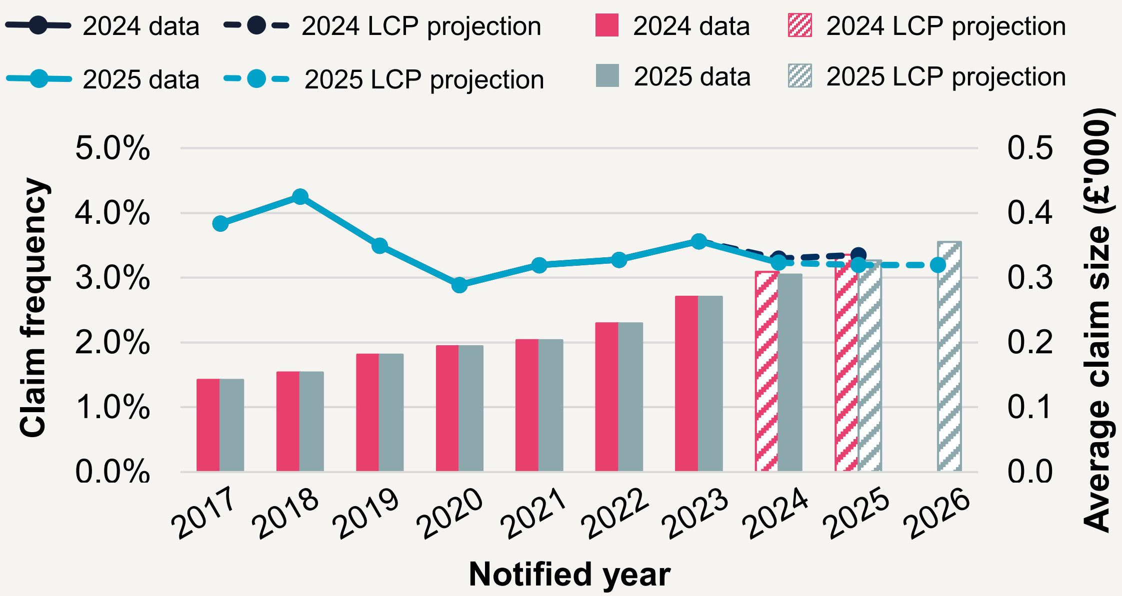
The strong increasing trend in burning cost is driven by high claim severity inflation, due to **increasing use of technology in windscreens**.

Burning cost inflation stabilised in 2024, with 2025 and 2026 expected to follow, as severity inflation returns to normal levels and frequency flattens.

Source: ABI motor premium and claims tracker – Q1 2025

Motor – windscreen

Claim frequency and severity



Year-on-year inflation

Notified year	Frequency	Severity	Burning cost
2024	-9%	+13%	+2%
2025	-1%	+7%	+6%
2026	0%	+9%	+9%

Source: ABI motor premium and claims tracker – Q1 2025

Frequency

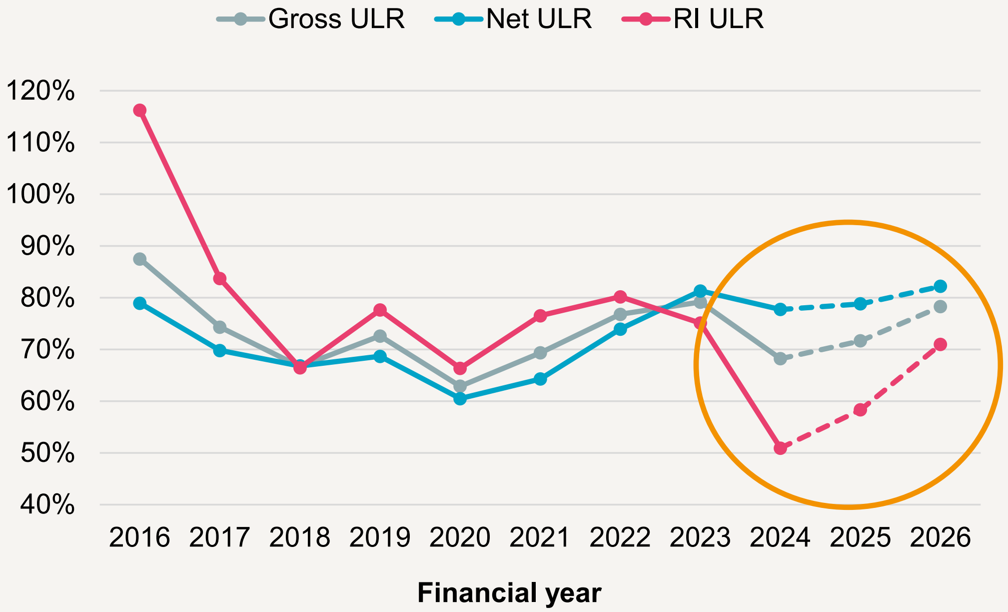
- **Windscreen claims have been much less impacted by Covid-19** than the other types of damage.
- Claim frequency has been relatively flat since 2021, and we are assuming a **broadly flat trend into 2026.**

Severity

- **Claim severity inflation has been relatively high** for a number of years. This is driven by the increasing prevalence 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).
- We are assuming that **claim severity inflation has now returned to more normal levels**. In particular, we assume that severity inflation for windscreen claims will be 6% pa higher than CPI.

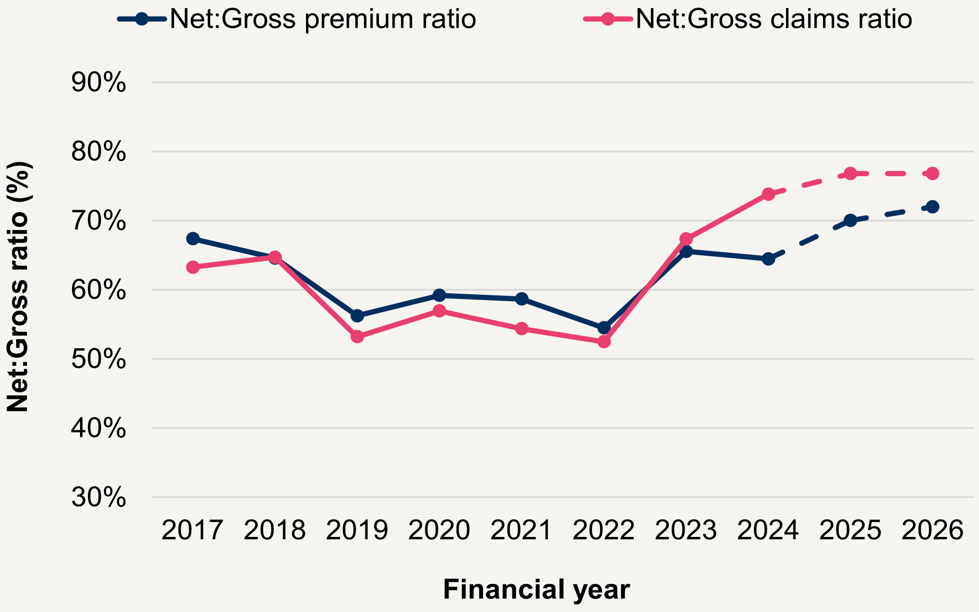
Motor – allowing for reinsurance

Comparison of gross, reinsurance and net loss ratios



- Typically, we expect net loss ratios to be higher than gross loss ratios due to profits ceded to reinsurers. However, this has been **distorted by Covid-19 and PIDR changes** (e.g., the 2016 reinsurer loss ratio is particularly high due to the decrease in the PIDR from 2.5% to -0.75%).
- **2024 defies the long-term trend** in the net-to-gross ratio, and **we do not expect a return to 'normal' by 2026**, driven by recent trends in reinsurance premiums and claims (shown on the right).

Net-to-gross premium and claims ratio

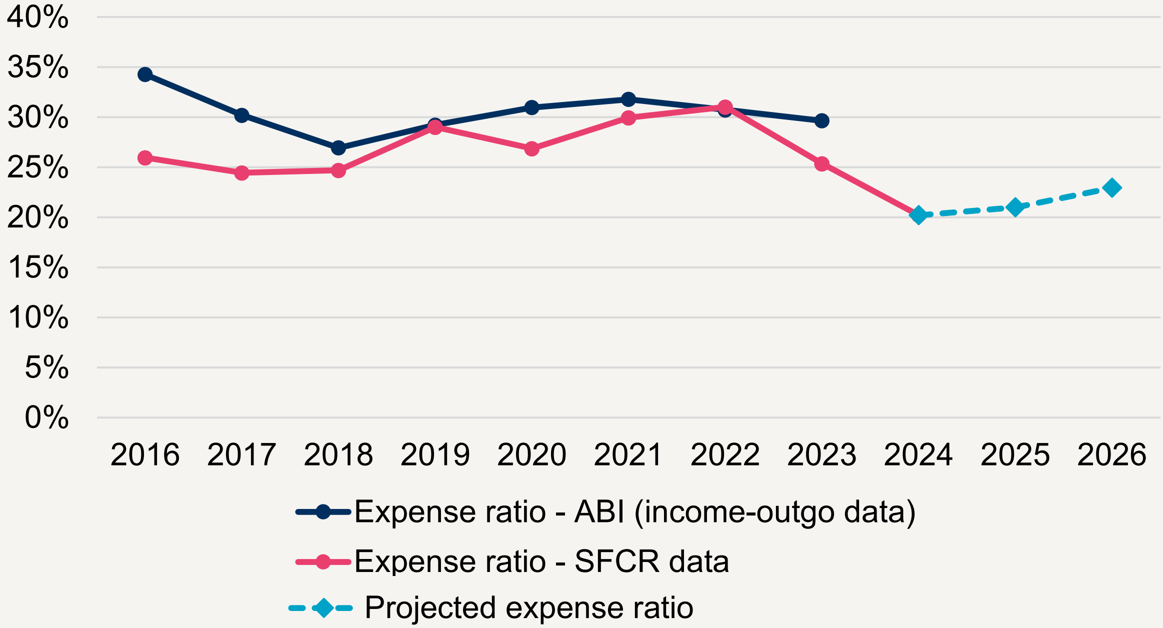


- The **increase in net-to-gross premium ratio** between 2022 and 2023 was driven by firms reducing level of reinsurance purchase due to higher reinsurance costs. Further increases between 2024 and 2025 are driven by the change in PIDR and greater capacity in the market.
- The **increase in the net-to-gross claims ratio** over 2024 is due to an acceleration of claims settlement driven by anticipation of the PIDR change.

Source: 2024 & prior loss and expense ratios based on motor direct business reported in SFCRs

Motor – expenses

Expense ratios (net of reinsurance)



Key highlights

Insurers' **expense ratios improved in 2023 and 2024**, driven by higher premiums. **Expenses per policy have been relatively stable** over 2023 and 2024.

Expenses per policy are assumed to increase by 5% per annum in 2025 and 2026.

AI and automation continues to be a focus in claims management and underwriting. In the longer term we expect to see benefits of this in expenses. However, **in the short term, rising wage costs and general inflation in claims management are more than offsetting early savings.**

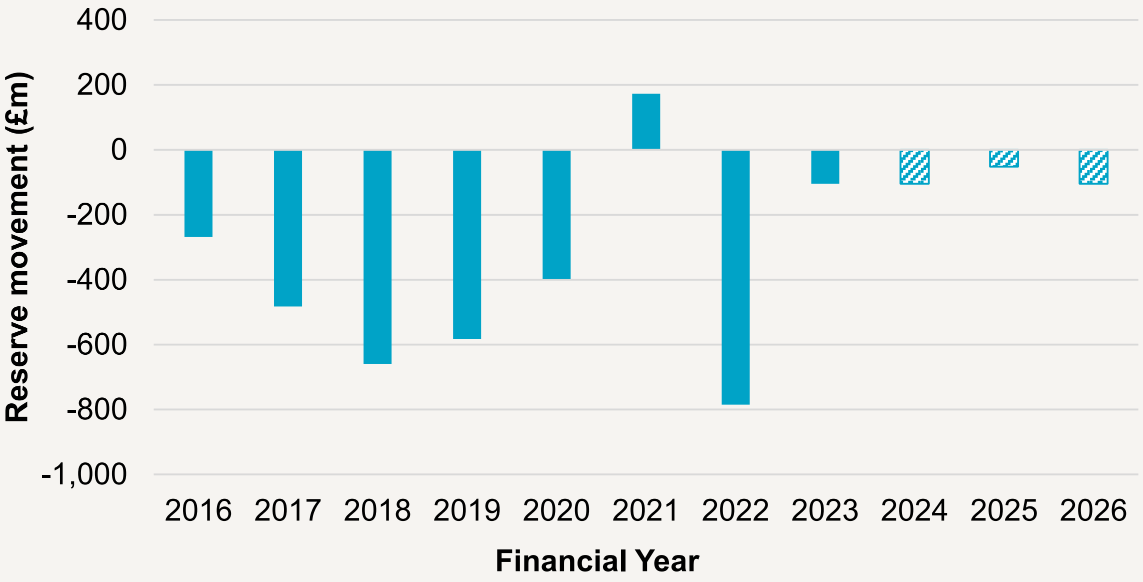
Source: 2024 & prior loss and expense ratios based on motor direct business reported in SFCRs

Motor – prior year reserve releases

Prior year reserve releases are a significant contributor to the combined ratio. At a market level:

- **2021** – insurers generally took the opportunity to strengthen prior year reserves due to the significant savings on the 2021 accident year, driven by COVID-19.
- **2022 and 2023** – accident year loss ratios on these years were very high due to high claims inflation but limited increases in premiums. Insurers put through significant releases in prior year reserves to help improve reported performance in 2022. Following this, there was not capacity to put through the same level of releases in 2023.

Prior year reserve releases



Expectations for 2024 to 2026

We are assuming a similar degree of releases in 2024 to 2026 to those seen in 2023, for the following reasons:

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

Source: 2024 & prior loss and expense ratios based on motor direct business reported in SFCRs

Home projections

UK home insurers continue to face a range of challenges, with increasing focus on managing subsidence claims and other weather-related trends. A proactive approach to identifying and responding to these pressures remains essential.

Nadeen Griffiths, LCP

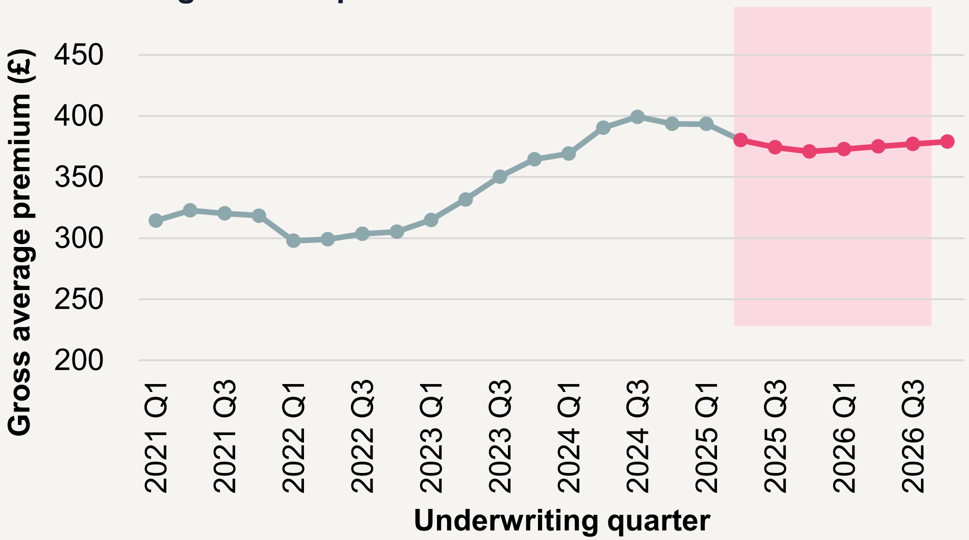
Market performance - home

Gross average written premiums

Premiums rose steadily through 2023 and early 2024 in response to high inflation. They have flattened over 2024 and early 2025 as the market has softened. We expect this slight downward trend to continue over 2025, with average premiums falling by around 2% compared to 2024.

In 2026, we expect a modest recovery, as insurers respond to anticipated losses (in particular from subsidence) in 2025. However, the extent of any rate increases remains uncertain and competitive pressures will likely remain a key factor.

Gross average written premiums



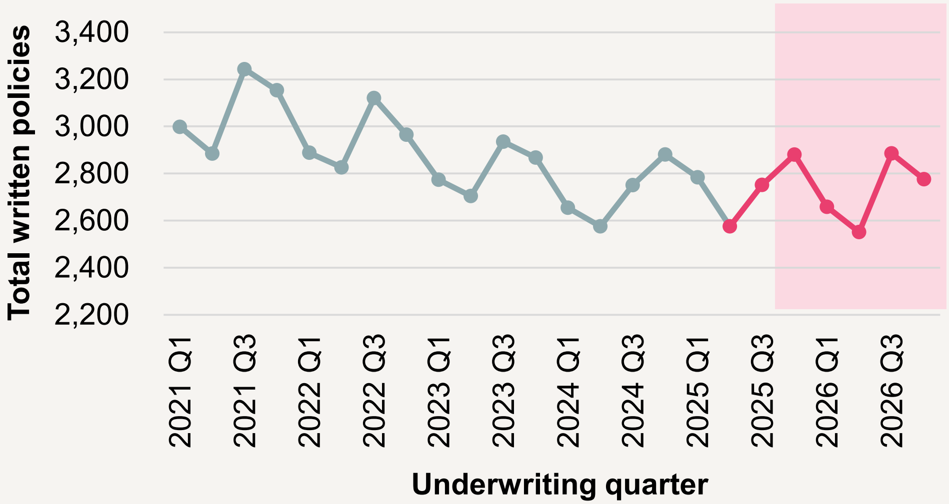
Total written polices

The market has seen a decline in the number of policies written since mid-2022, partially due to the cost-of-living crisis.

We expect that some insurers will reduce volumes and focus on risk selection to improve profitability, while others will expand in response to rising demand from softening rates. On balance, we expect volumes to remain stable across 2025 and 2026.

Overall gross written premiums are expected to fall, driven by soft market conditions.

Total written polices

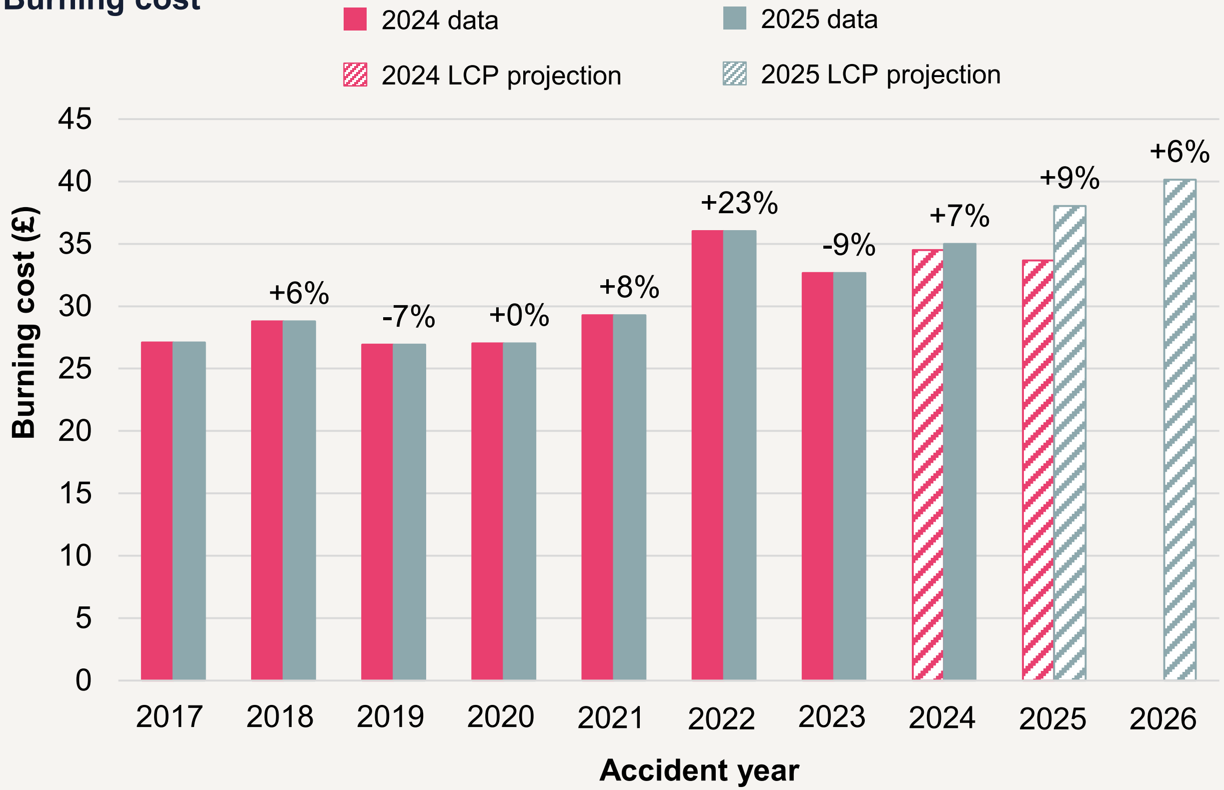


Source: ABI home premium and claims tracker – Q1 2025

Home – fire

Insurers are navigating rising claims costs, primarily driven by increases in the cost of building materials and labour rates in the construction industry. This is partially offset by a decline in claim frequency.

Burning cost



Key highlights

Overall, the market is expected to experience an **increase in burning cost** in 2025 and 2026, driven by significant increases in claims severity.

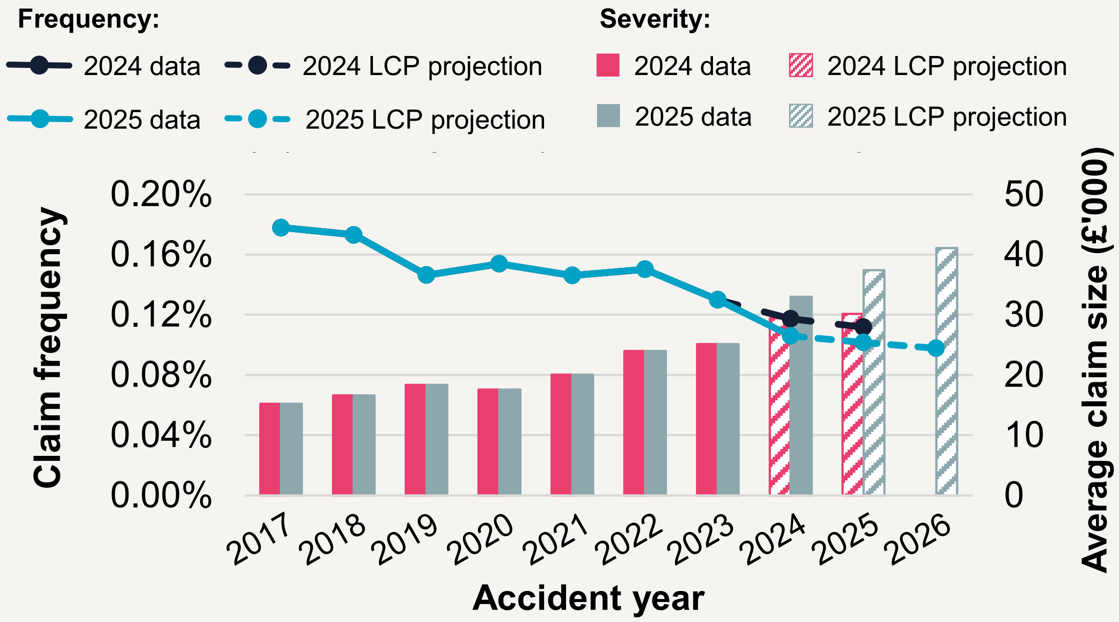
High severity inflation, significantly above the housing rebuild index and the ONS construction wage index.

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

Source: ABI home premium and claims tracker – Q1 2025

Home – fire

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2024	-18%	+31%	+7%
2025	-4%	+13%	+9%
2026	-4%	+10%	+6%

Source: ABI home premium and claims tracker – Q1 2025

Frequency

- Fire **frequency has been steadily decreasing since 2017**, most likely driven by updates in fire safety regulations, improvements in fire safety technology and a reduction in smoking, particularly inside.
- During the Covid-19 lockdown years, the market saw a slight increase in frequency while people were at home more. Additionally, 2020 and 2022 experienced particularly dry summers resulting in a slight uptick in the frequency of fires.
- We are **expecting the long-term downward trend to continue** into 2026.

Severity

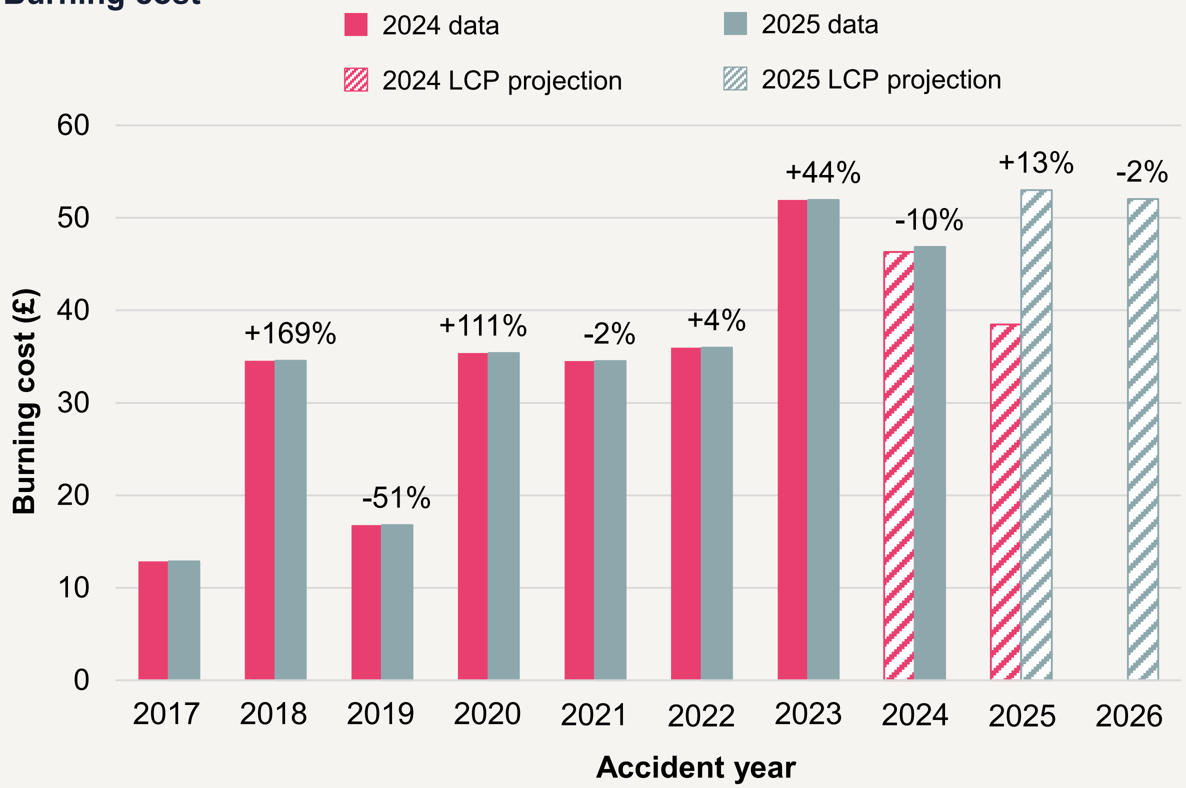
- **Severity has been increasing since 2017**, with significant increases in 2022 and 2024.
- We are **projecting the strong increasing severity trend to continue** in 2025 and 2026, as the drivers of high claims inflation persist.
- The main driver of increased severity has been above-CPI increases in both the cost of building materials and labour rates.

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 burst pipe claims (consistent with the ABI).

Burning cost



Key highlights

Overall, **burning cost significantly increased in 2023,** driven by high severity. A **similar spike is expected in 2025**, reflecting the adverse severity experience already observed in Q1 2025. The high volatility seen in recent years is indicative of the broader impacts of climate change.

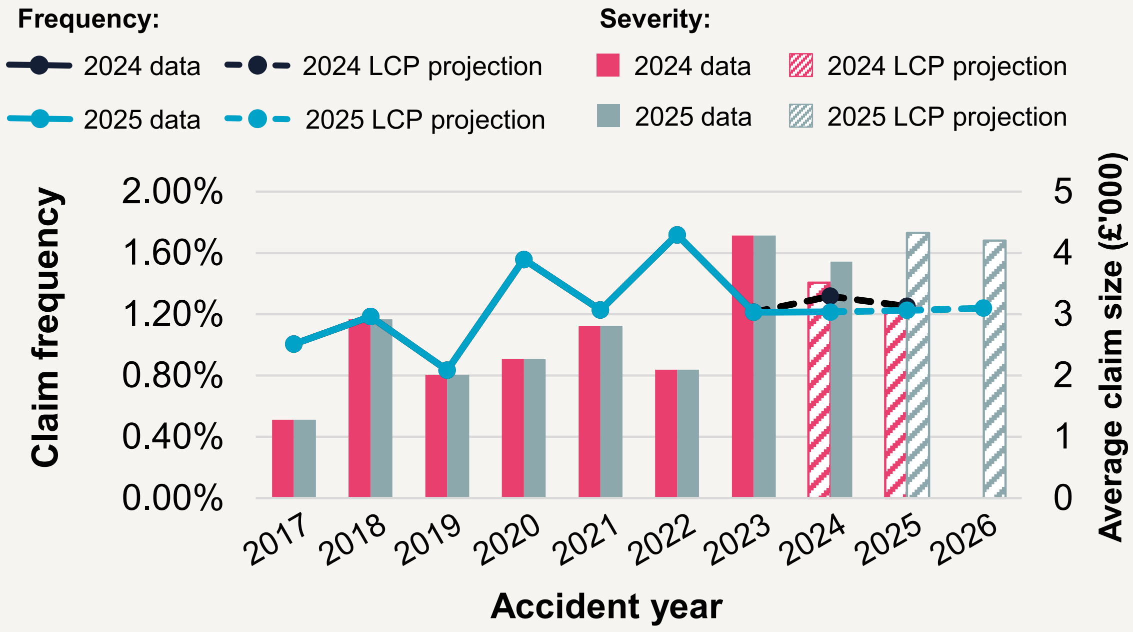
Sustained high claim costs expected in 2025 and 2026. With the potential for both years to reach or exceed the level seen in 2023.

Frequency is highly volatile. We have assumed a relatively stable trend over 2025 and 2026 but material increases or decreases are possible based on past experience.

Source: ABI home premium and claims tracker – Q1 2025

Home – weather

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2024	0%	-10%	-10%
2025	+1%	+12%	+13%
2026	+1%	-3%	-2%

Source: ABI home premium and claims tracker – Q1 2025

Frequency

- In 2020 storms Ciara and Dennis created a peak in claims frequency.
- The 2022 spike is partly due to Storm Eunice, the most extreme windstorm to affect England and Wales since 2014.
- Despite 12 named storms in 2024, overall claim frequency was broadly average. Early signs suggest a similar pattern in 2025, with events such as Storm Eowyn.
- Overall, we are **projecting average frequency trends for 2025 and 2026**.

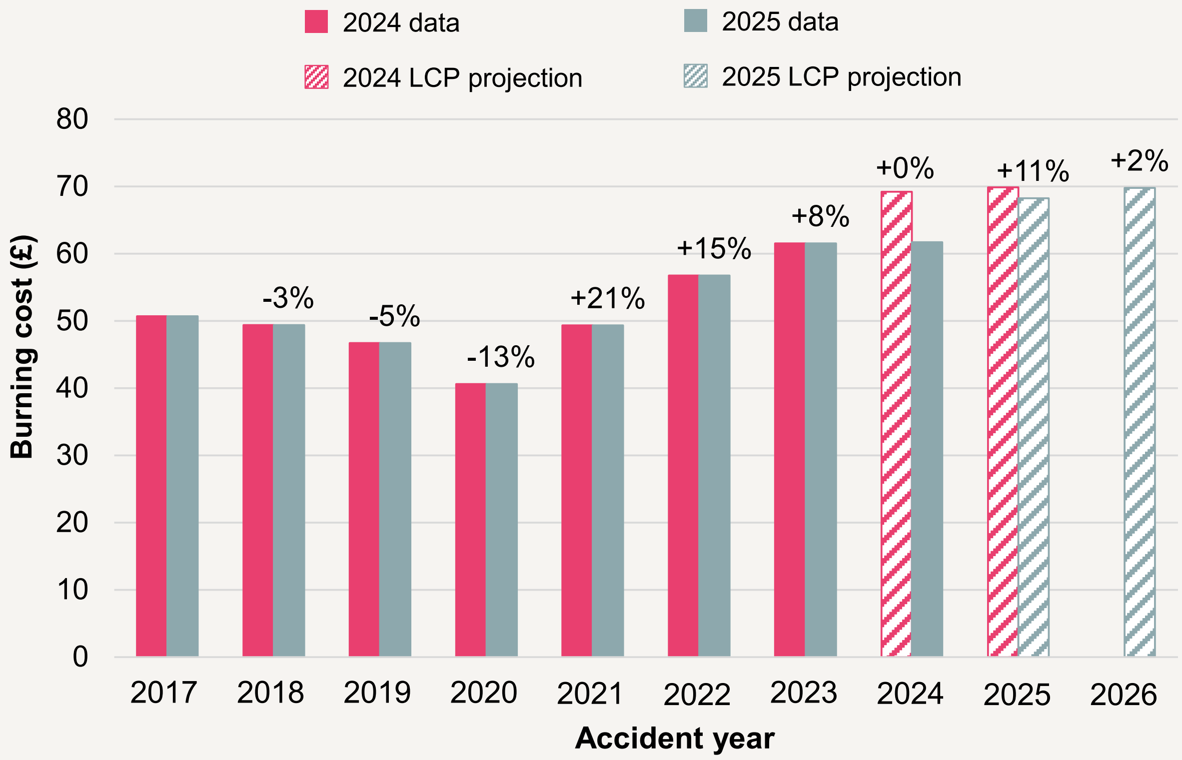
Severity

- There has been an **overall upwards trend in severity**, with 2023 particularly adverse due to multiple weather events.
- We are **projecting continued high severity in 2025 and 2026**.
- With Q1 2025 severity 19% higher than Q1 2024, we expect a step up in this year. This suggests 2025 could match or even exceed 2023.

Home – escape of water

For the past 3 years, insurers have faced high year-on-year burning cost increases on escape of water claims, driven by high inflation of average claims costs. 2024 provided some relief, with offsetting reductions in frequency keeping overall costs stable.

Burning cost



Key highlights

Burning cost has been increasing significantly since 2020 driven by sharp increases in severity. 2024 burning cost was unchanged from the previous year as the reduction in frequency offset severity increases.

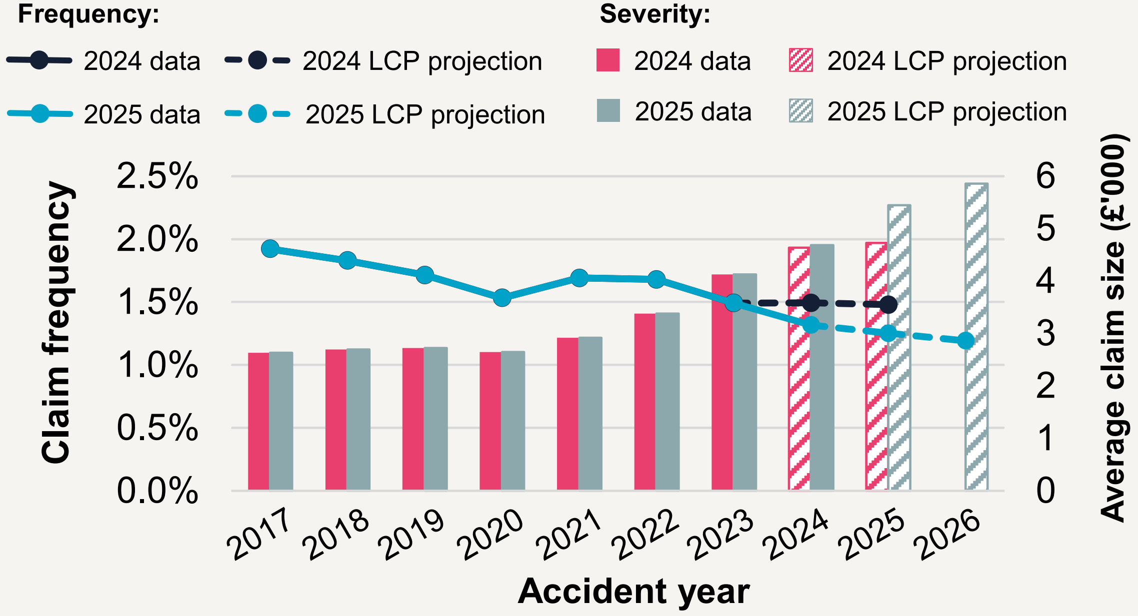
Supply chain disruptions in the plumbing and construction sectors and labour shortages are driving **significant severity inflation.**

Frequency is trending down as reduced propensity to claim and higher compulsory excesses limit smaller losses.

Source: ABI home premium and claims tracker – Q1 2025

Home – escape of water

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2024	-12%	+14%	0%
2025	-5%	+16%	+11%
2026	-5%	+7%	+2%

Source: ABI home premium and claims tracker – Q1 2025

Frequency

- EoW frequency reduced between 2017 and 2020. This was likely due to improvements in plumbing and building standards, for example isolation techniques and leak detection technology.
- In 2021 there was an uptick post-Covid. This may have been driven by an increase in DIY home improvements leading to a rise in EoW claims.
- Since 2022, frequency has reduced once again. We predict this to continue as policyholders avoid small claims and select higher compulsory excesses.

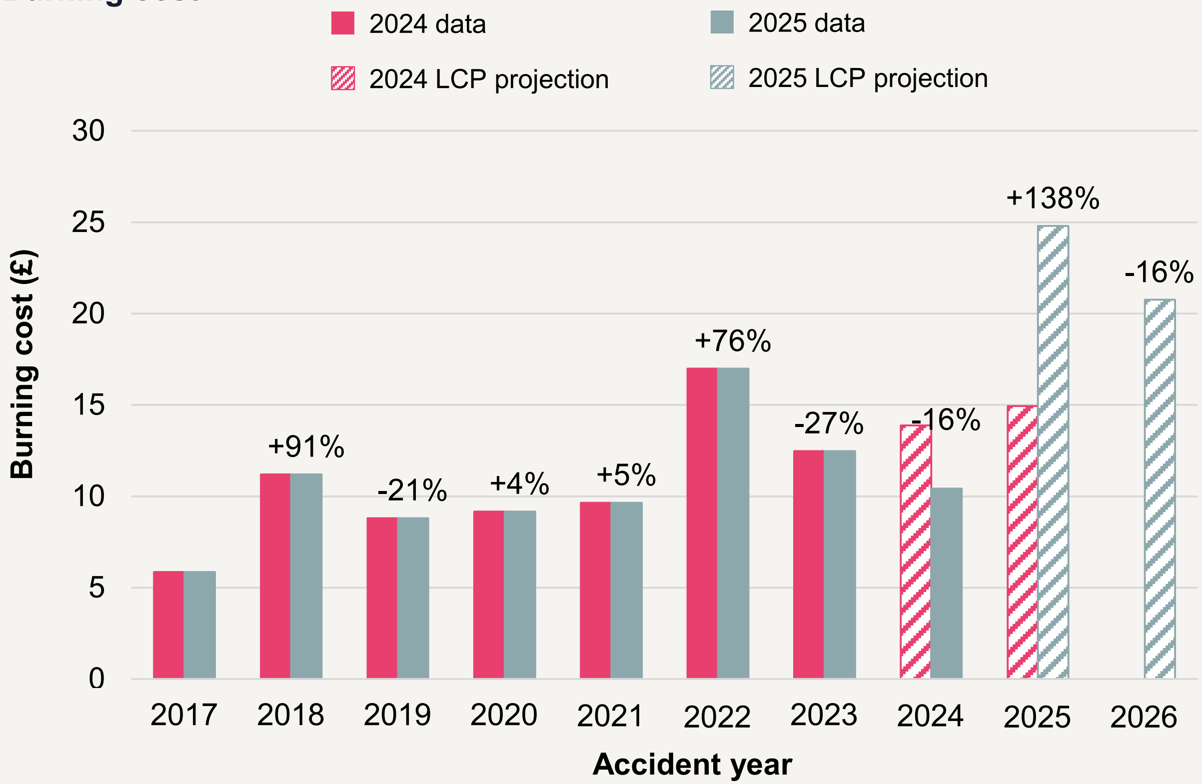
Severity

- The market has seen sharp year-on-year increases in severity since 2020. There has been record-high severity in Q1 2025, where the average claim size reached £5.8k compared with an historical average of £3.0k since 2015.
- We expect that this increasing trend will continue in 2025 and 2026, as the drivers of high claims inflation persist.
- Key drivers of inflation include supply chain disruption and labour shortages, compounded by recent US tariffs, pushing up material and labour costs. Additionally, growing home complexity, including smart technology installation, exacerbates these challenges.

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

Burning cost is volatile and peaks in the known surge years 2018 and 2022, as well as the projected surge in 2025.

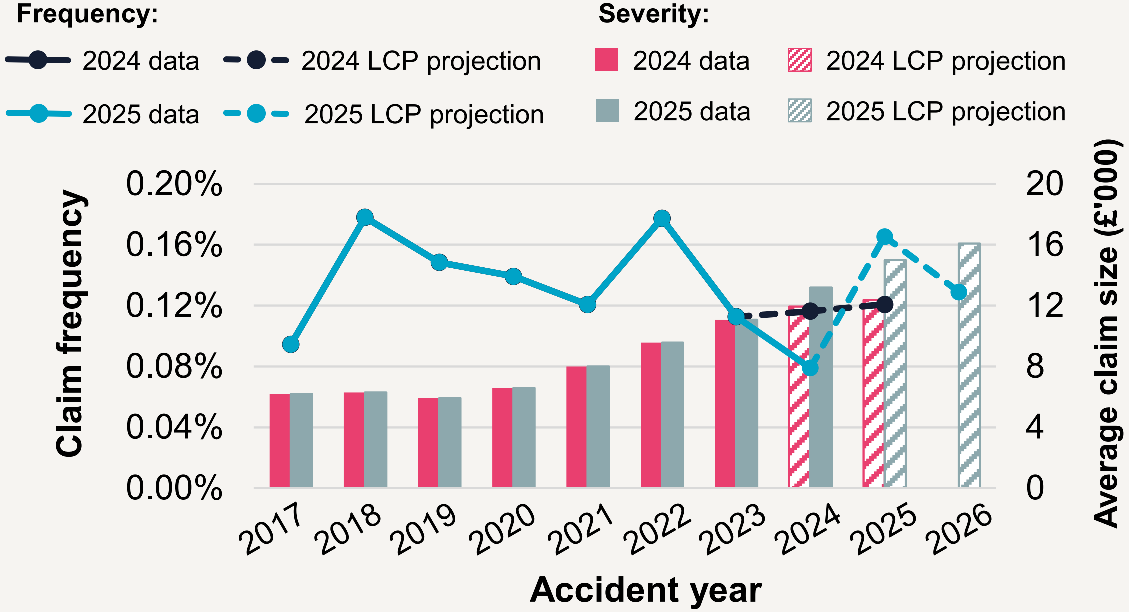
The market has seen **high increases in severity**, reflecting inflationary pressures in the UK construction industry and more complex repairs.

While subsidence frequency can be highly volatile, we are projecting **2025 to be a surge year** and assuming that 2026 will be an average year.

Source: ABI home premium and claims tracker – Q1 2025

Home – subsidence

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2024	-30%	+19%	-16%
2025*	+109%	+14%	+138%
2026	-22%	+7%	-16%

*2025 expected to be a subsidence surge year

Frequency

- Subsidence frequency is highly correlated with weather conditions, with prolonged dry spells increasing the risk of subsidence claims.
- **We are projecting 2025 to be a surge year** following four declared heatwaves this year and soil moisture deficit measurements showing comparable levels to 2018 and 2022.
- With limited data on climate expectations for 2026, we have projected a long-term average frequency for the year.

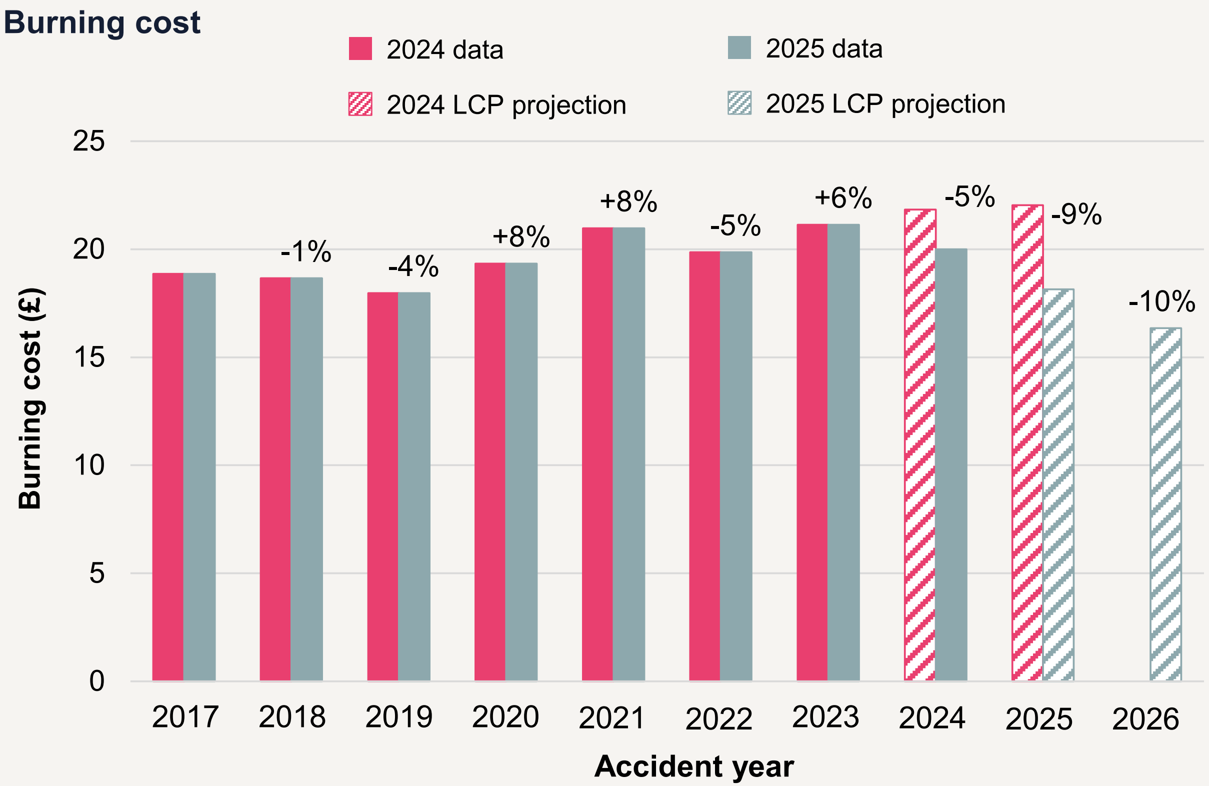
Severity

- Subsidence severity has been increasing since 2019 with rising repair costs, aging UK housing stock and more frequent and severe weather events driving up average costs. The inflationary pressures on subsidence claims costs are similar to those on fire and EoW.
- We expect the 2025 and 2026 accident years to be a continuation of this trend. However, this will be dependent on weather conditions, building material inflation and labour rates.

Source: ABI home premium and claims tracker – Q1 2025

Home – accidental damage

The biggest driver of change for this head of damage is frequency. Although severity is increasing due to rising claims costs, this is largely offset by the decrease in frequency.



Key highlights

Falling frequency has offset rising severity, with **burning cost projected to fall** by 9% in 2025 and 10% in 2026.

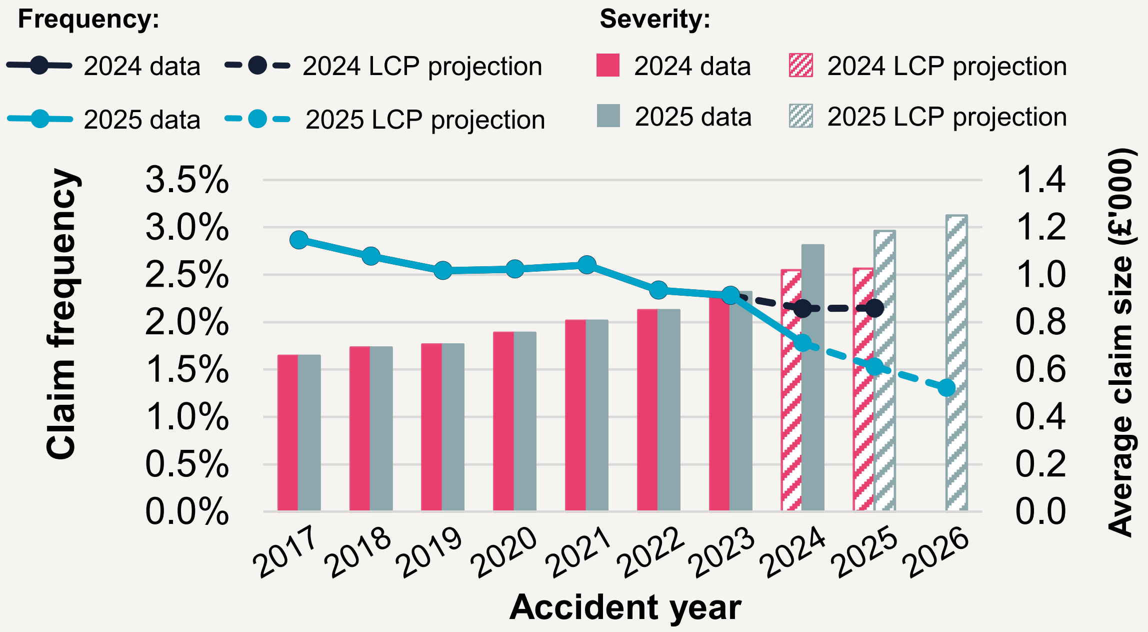
The long-term **increasing severity** trend has continued in 2024, and we expect this to persist into 2025 and 2026.

Frequency has been declining since 2021. We believe a **new frequency trend is emerging** (see next page), although there is uncertainty around what is driving it.

Source: ABI home premium and claims tracker – Q1 2025

Home – accidental damage

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2024	-22%	+21%	-5%
2025	-14%	+5%	-9%
2026	-15%	+5%	-10%

Source: ABI home premium and claims tracker – Q1 2025

Frequency

- Frequency has generally been trending downwards, despite a slight increase during Covid lockdowns.
- **Over the year to 2024, we observed a marked step-down in frequency.**
- There are a number of factors which could be contributing to this trend, including a decrease in propensity to claim because of higher compulsory excesses and policyholder concerns about future premium increases. Given current market conditions, we don't expect these factors to change in the near future. We are therefore projecting a continued downward trend into 2025 and 2026.

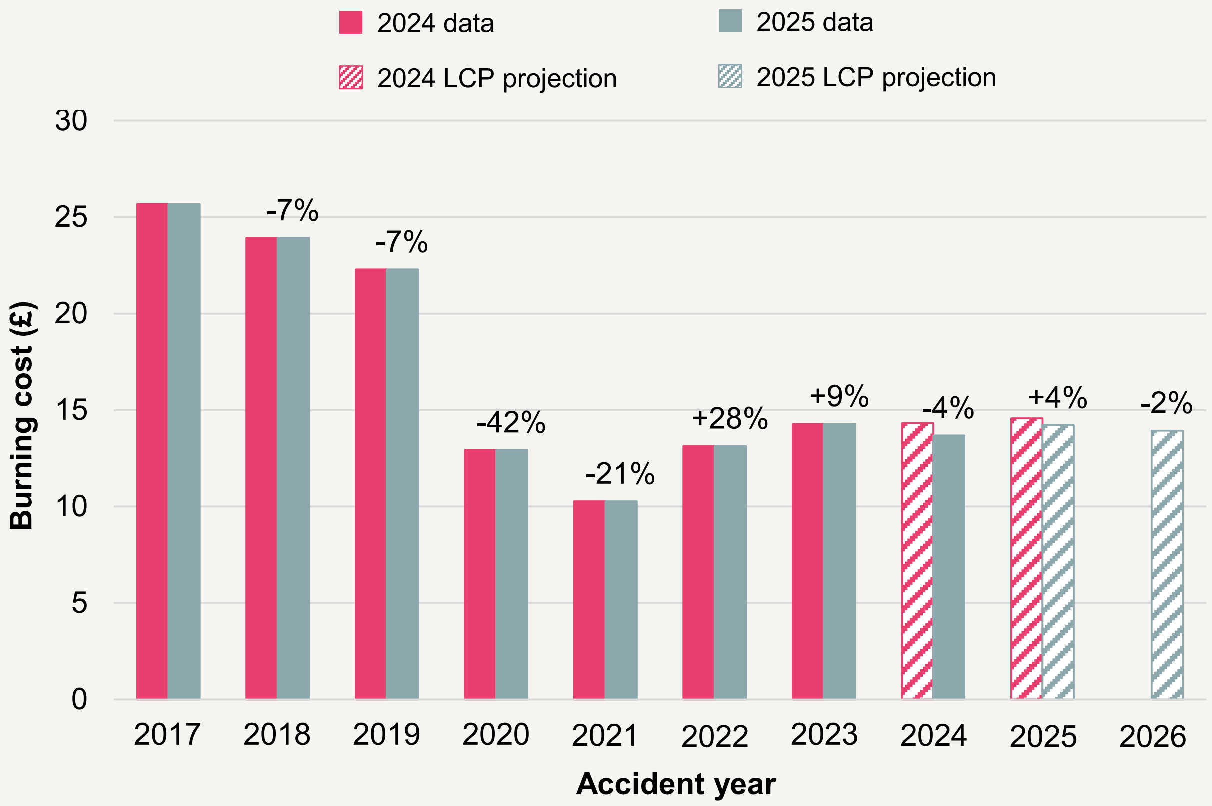
Severity

- Severity has been increasing since 2017, with sharper year-on-year rises from 2020 and a notable jump in 2024. This is partially due to UK inflation and a shift toward higher-value claims.
- **There has been a notable jump in severity in 2024**. We expect that this increasing trend will continue in 2025 and 2026, as UK CPI remains elevated.

Home – theft

Theft claims have fallen since Covid-19. The economic outlook could result in a change in mix of theft claims which could become problematic for insurers.

Burning cost



Key highlights

Overall, we expect burning cost in 2025 and 2026 to **remain broadly stable.**

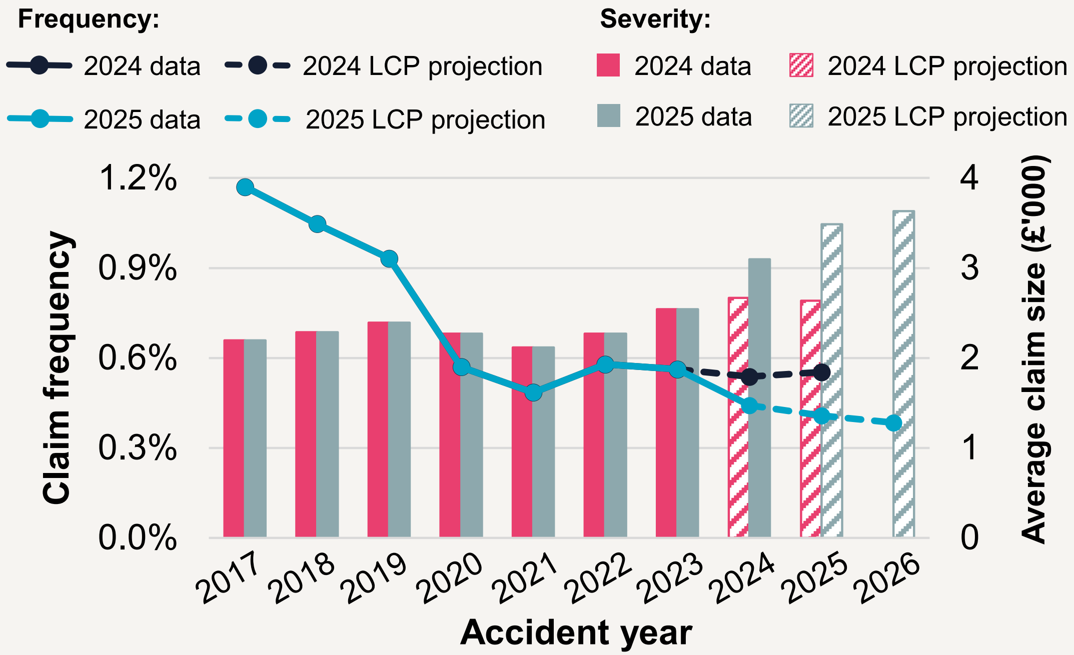
There has been an **increasing trend in severity** since 2021, which we are projecting to continue into 2025 and 2026.

Frequency has fallen in 2024 and we are expecting this **decreasing trend** to continue.

Source: ABI home premium and claims tracker – Q1 2025

Home – theft

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2024	-21%	+22%	-4%
2025	-8%	+13%	+4%
2026	-6%	+4%	-2%

Source: ABI home premium and claims tracker – Q1 2025

Frequency

- Theft frequency decreased in 2024, after a relatively stable post-Covid period. ONS data is showing that burglary rates are continuing to fall in 2025.
- We are therefore **projecting a decreasing trend in claim frequency into 2025 and 2026**.

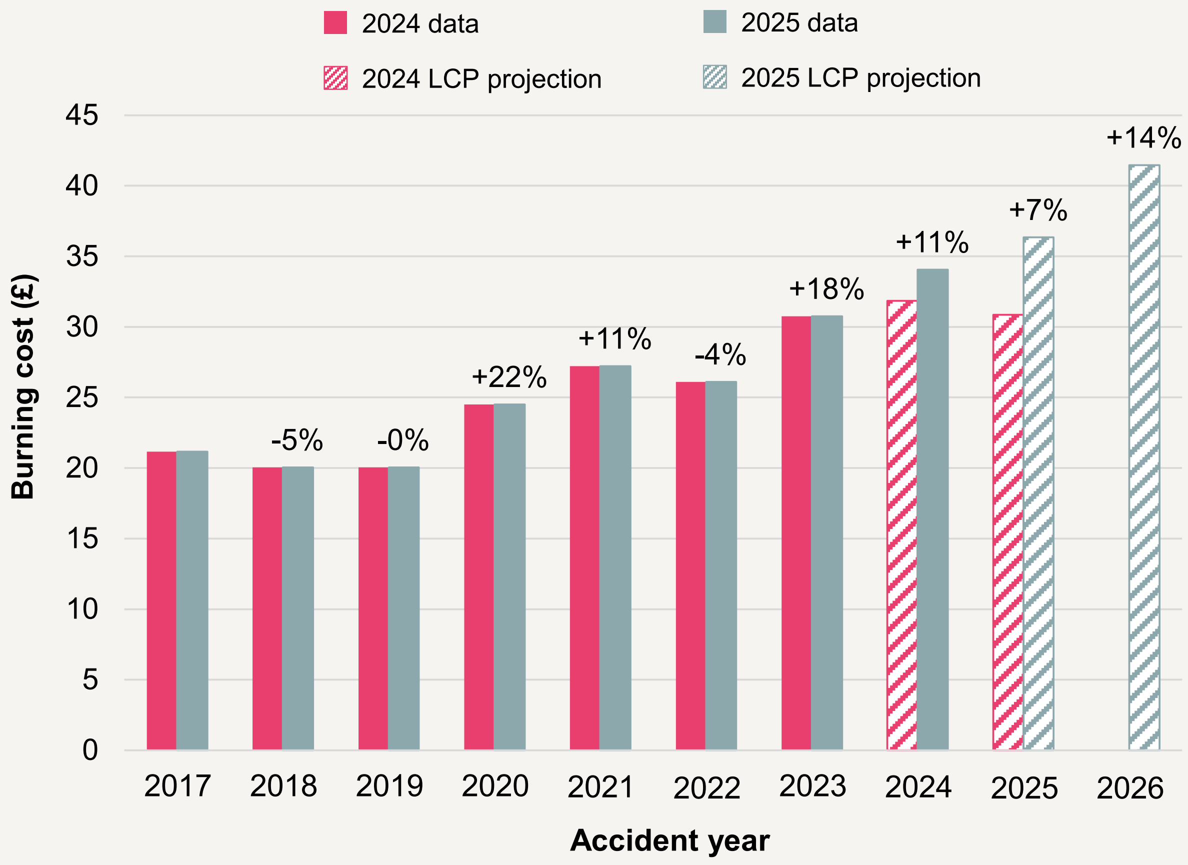
Severity

- Severity has been trending upwards from 2021 and there has been significant increases in severity in 2024 Q4 and 2025 Q1.
- The **upward trend in severity** is partially offset by the decreasing trend in frequency resulting in a broadly stable burning cost.

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 2020, driven by rising severity.

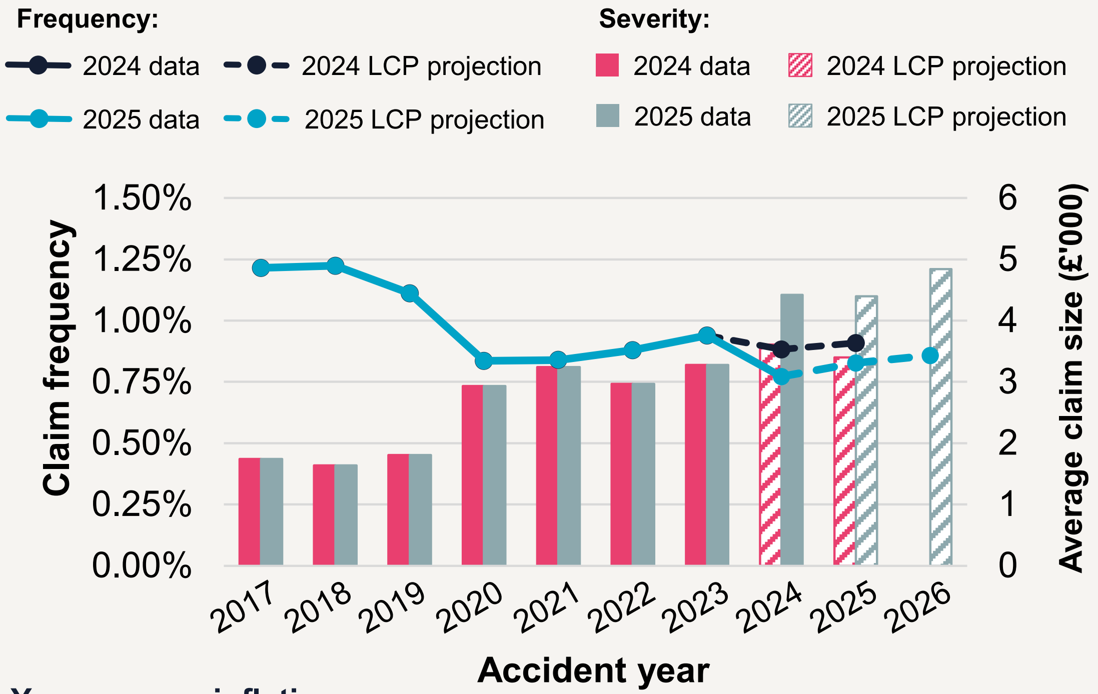
Severity has been increasing in recent years. In light of experience over the past year, we expect this trend to continue into 2026.

The market is showing a broadly **stable trend in frequency**.

Source: ABI home premium and claims tracker – Q1 2025

Home – other

Claim frequency and severity



Year-on-year inflation

Accident year	Frequency	Severity	Burning cost
2024	-18%	+35%	+11%
2025	+7%	0%	+7%
2026	+4%	+10%	+14%

Source: ABI home premium and claims tracker – Q1 2025

Frequency

- The market saw a **drop in frequency during 2024** after a period of increasing frequency on the prior accident years.
- There are signs of this trend reversing in 2025, and we have therefore assumed a **return to recent average frequency** through to 2026.

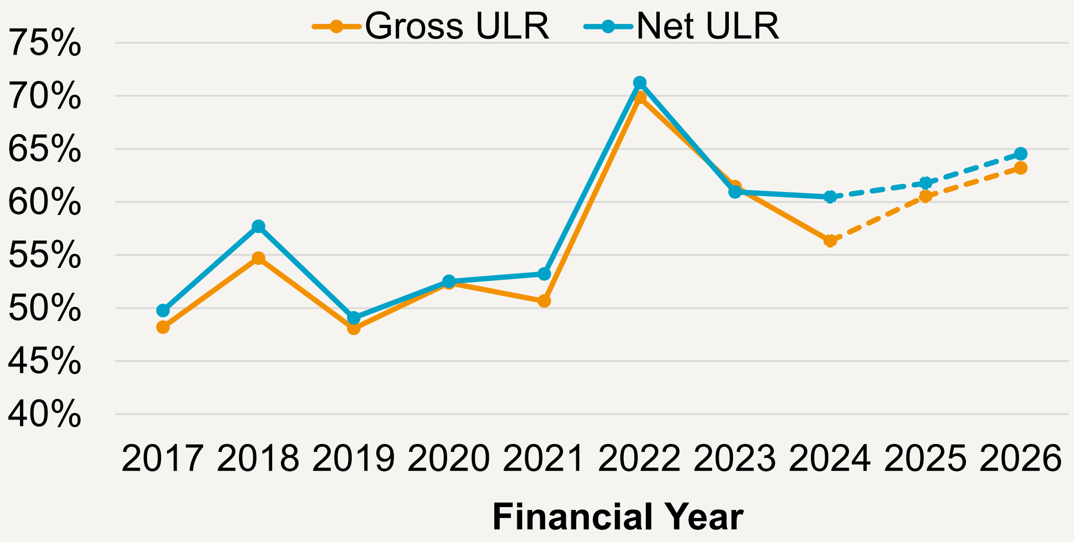
Severity

- Severity has trended upwards since 2018 with a notable step up in 2020 and again in 2024.
- We have **projected the increasing trend in severity to continue** into 2026.

Home – other factors affecting the combined ratio

Netting down for reinsurance

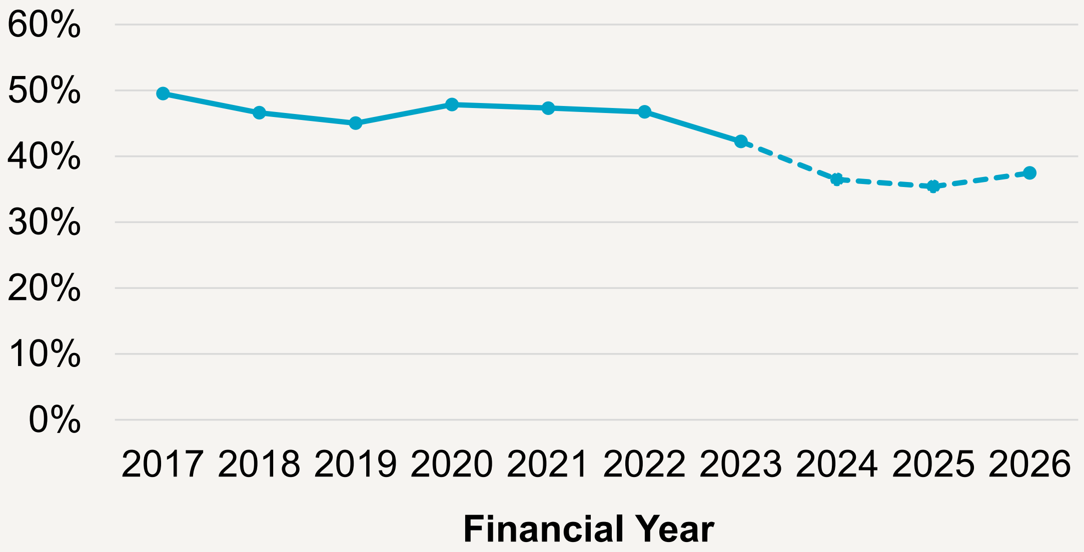
Net and gross loss ratios



- We expect gross and net loss ratios to rise in 2025 and 2026 as higher claims severity coincides with soft market conditions.
- Net and gross loss ratios have typically moved together. The divergence of this trend in 2024 may reflect increased reinsurer profitability following a hard market over 2024.

Expenses

Expense ratio (net of reinsurance)



- We expect to see an improvement in the market expense ratio in 2025 due to the continued benefits of higher average premiums in 2024.
- We have projected this to slightly revert in 2026 amid soft market conditions. However, firms are anticipated to continue to manage costs to maintain profitability amid high claims severity.

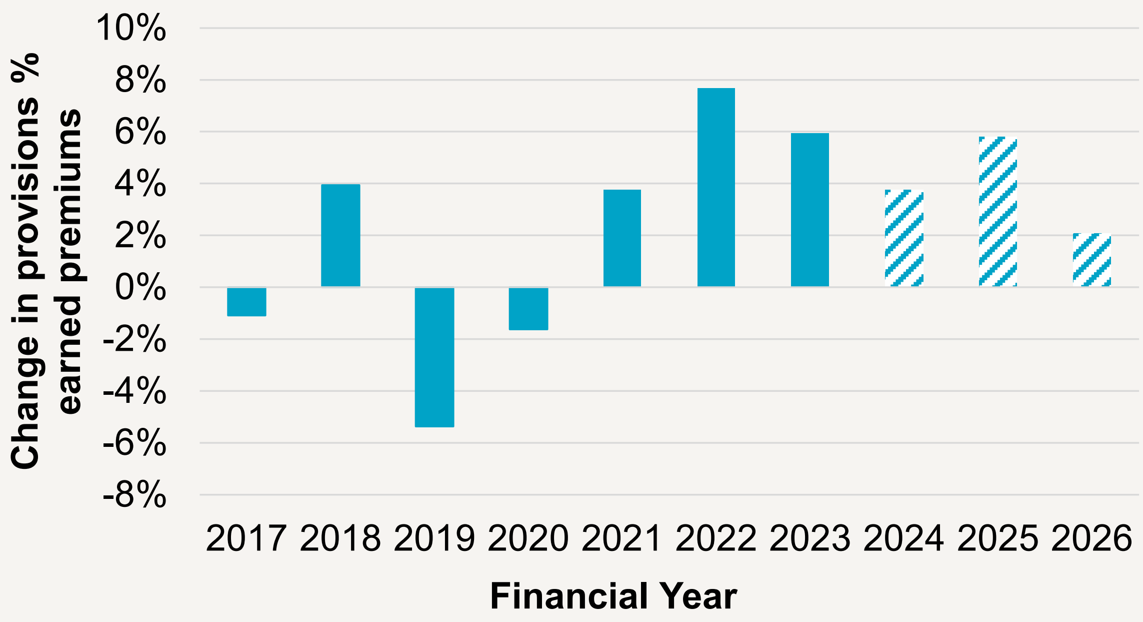
Source: ABI data up to 2023, SFCR data for 2024, projected by LCP

Home – prior year reserve releases

Prior year reserve deteriorations are a key contributor to the combined ratio.

Reserve deteriorations between 2021 and 2023 were significant, reflecting the impact of high past inflation.

Prior year reserve releases



Expectations for 2024 to 2026

We are expecting reserve deteriorations to continue in 2024 to 2026. This is due to:

- High projected severity, with claims inflation outpacing price and construction indices.
- An adverse subsidence year in 2025, which could trigger revisions to prior year subsidence claims as new information becomes available.

Source: ABI data up to 2023,, projected by LCP

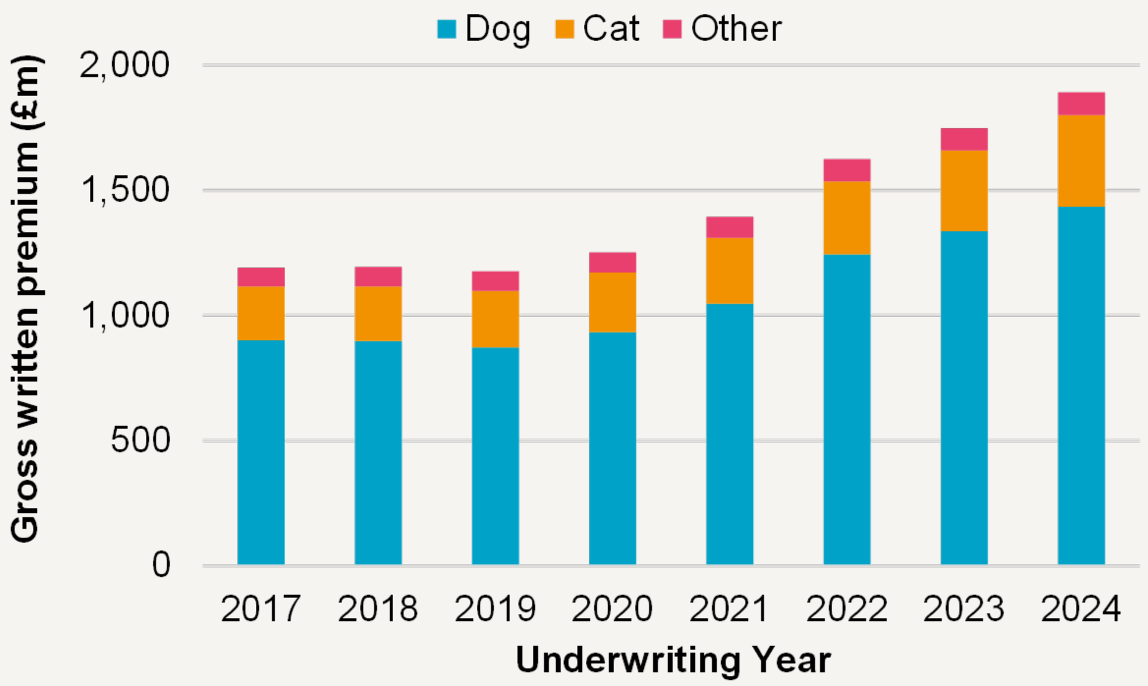
Pet market update

It's an exciting time for the pet market, but it also faces challenges. New entrants have joined the market in recent years, driving up competition, and inflation continues to have an impact.

Ed Gaughan, LCP

Pet – market performance

Premium volume by animal



Key highlights

Premiums have continued to rise steadily with an 8% increase from 2023 to 2024, leading to total market premiums of c.£1.9billion. The market is forecasted to continue expanding.

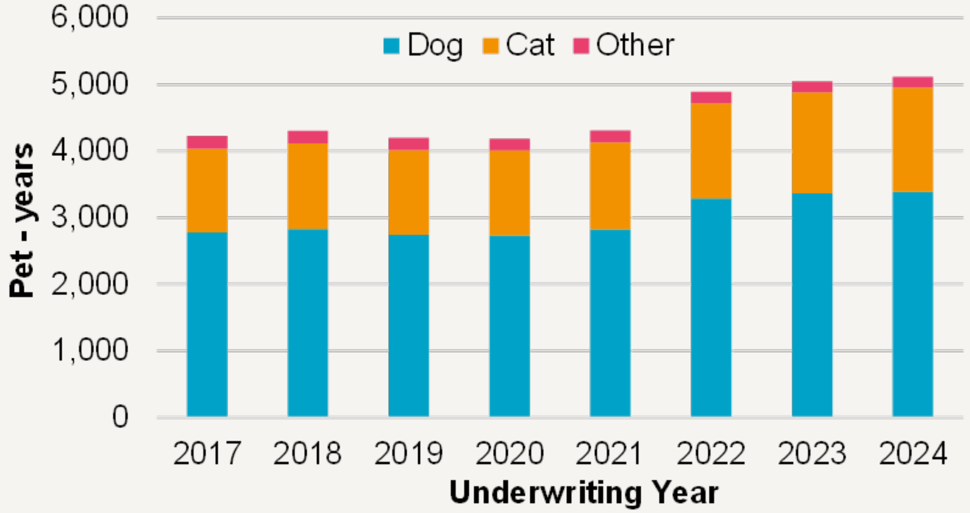
The increase is **primarily driven by increases in average premium increases**, as well as a step change in exposure (discussed on the following slide).

While the market has been growing, the **proportion of cats, dogs and other pets insured has remained broadly** constant. Dogs consistently account for approximately 75% of gross market premiums.

Pet – drivers of growth

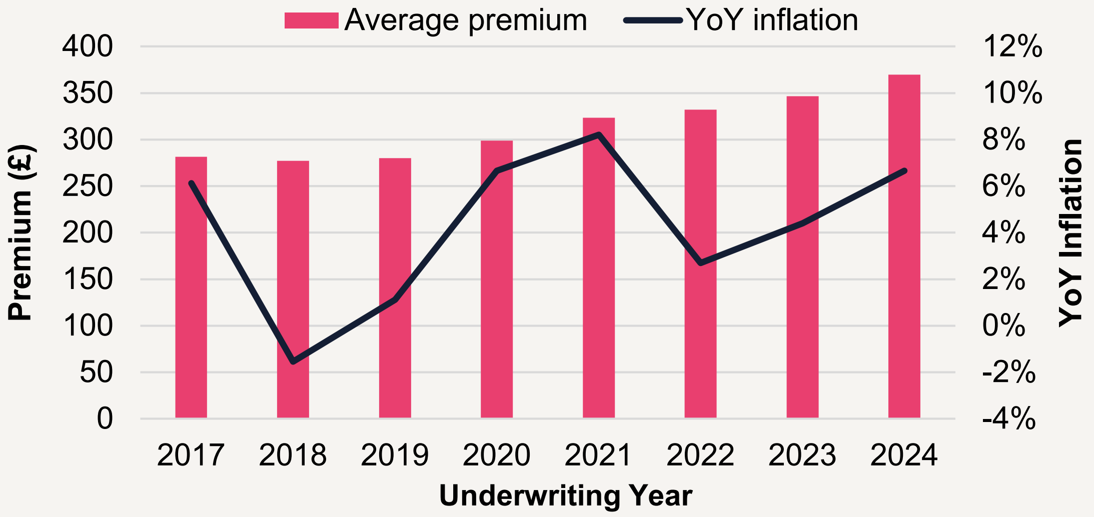
Exposure

Prior to the Covid pandemic, the number of pets insured within the market was broadly stable at around 4m. Between 2021 and 2022, this increased by approximately 15%. Since then, the level of exposure within the market has increased only marginally.



Average premium per pet

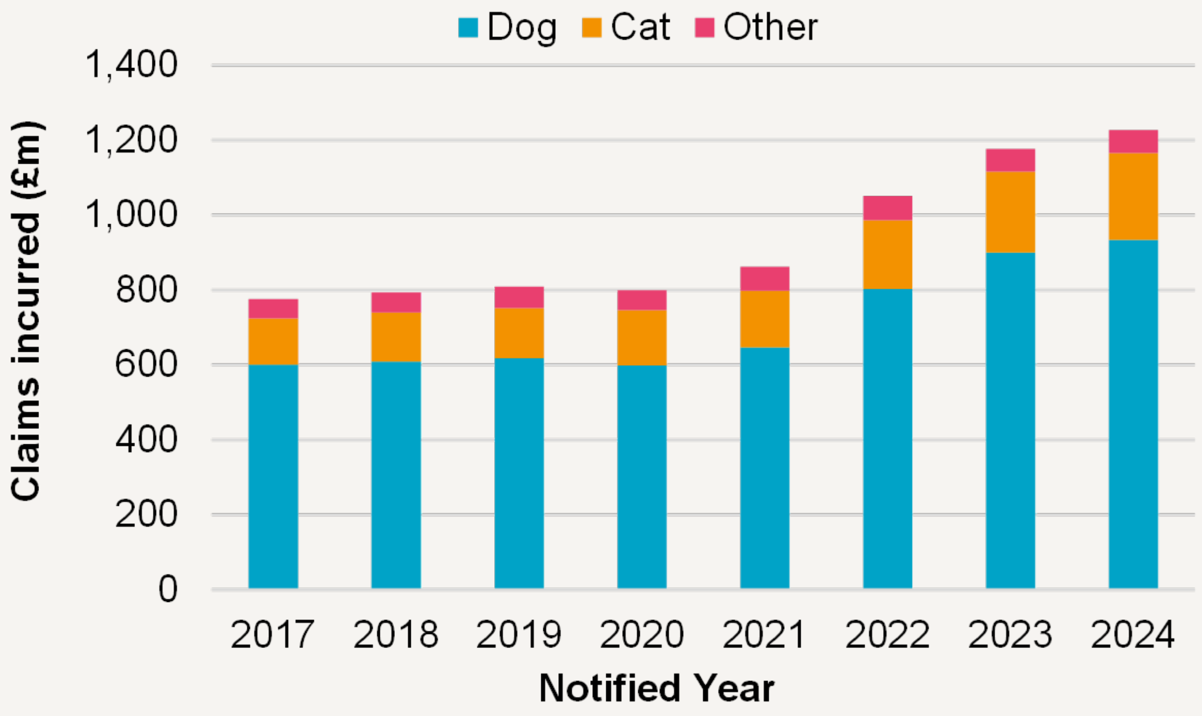
Generally, premium rates within the market have been increasing each year since 2018. The market saw particularly large increases in rates over 2020 and 2021. Since then, average premiums have continued to increase, but at a slower rate.



Source: ABI market stats, year-end 2024

Pet – market claims cost

Claims incurred by animal



Key highlights

There has been a clear upward trend in claims cost since 2020.

The increases seen over 2021 and 2022 increases were driven by **increases in exposure**.

Total claims costs inflated by 12% over 2023 and by 4% over 2024. These increases are driven by inflationary pressures and increased claims frequency.

Source: ABI market stats, year-end 2024

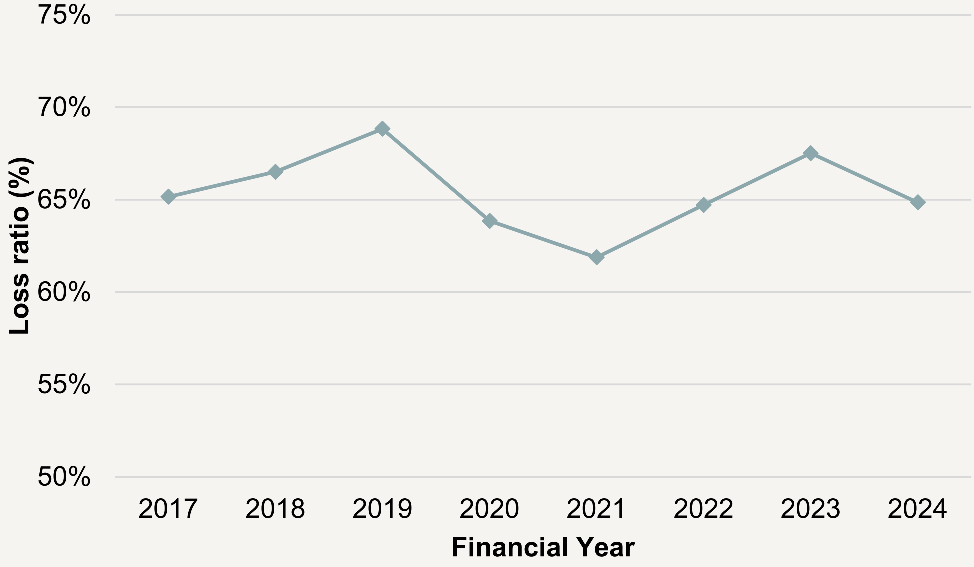
Pet – market loss ratios

Loss ratio – all

Between 2017 and 2024, market level **gross loss ratios remained broadly stable at around 65%**. This behaviour is largely due to increases in claims cost being offset by increases in premiums.

There were specific peaks and troughs in loss ratios due to:

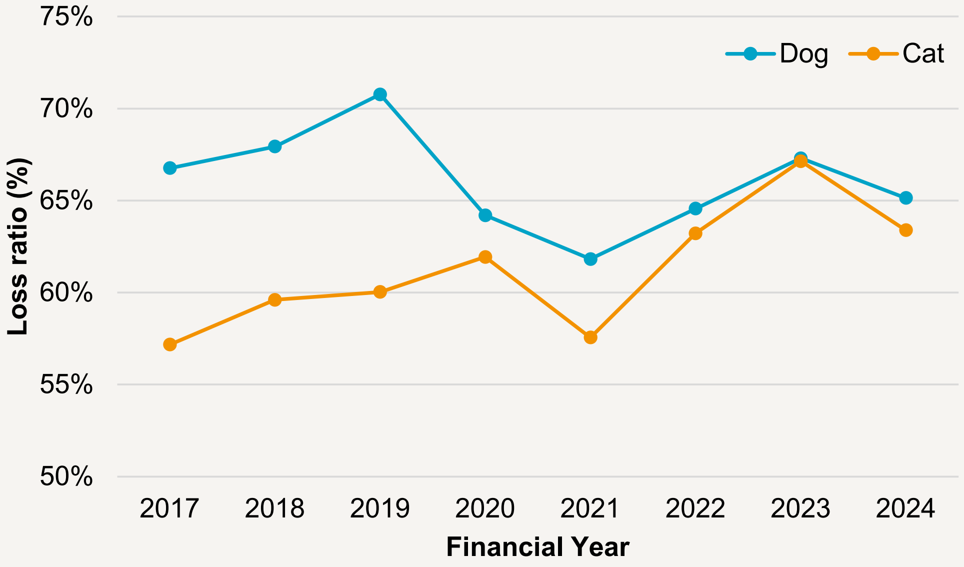
- The Covid pandemic (leading to an influx of young pets being insured).
- The high inflationary environment in more recent years.



Loss ratio – cats and dogs

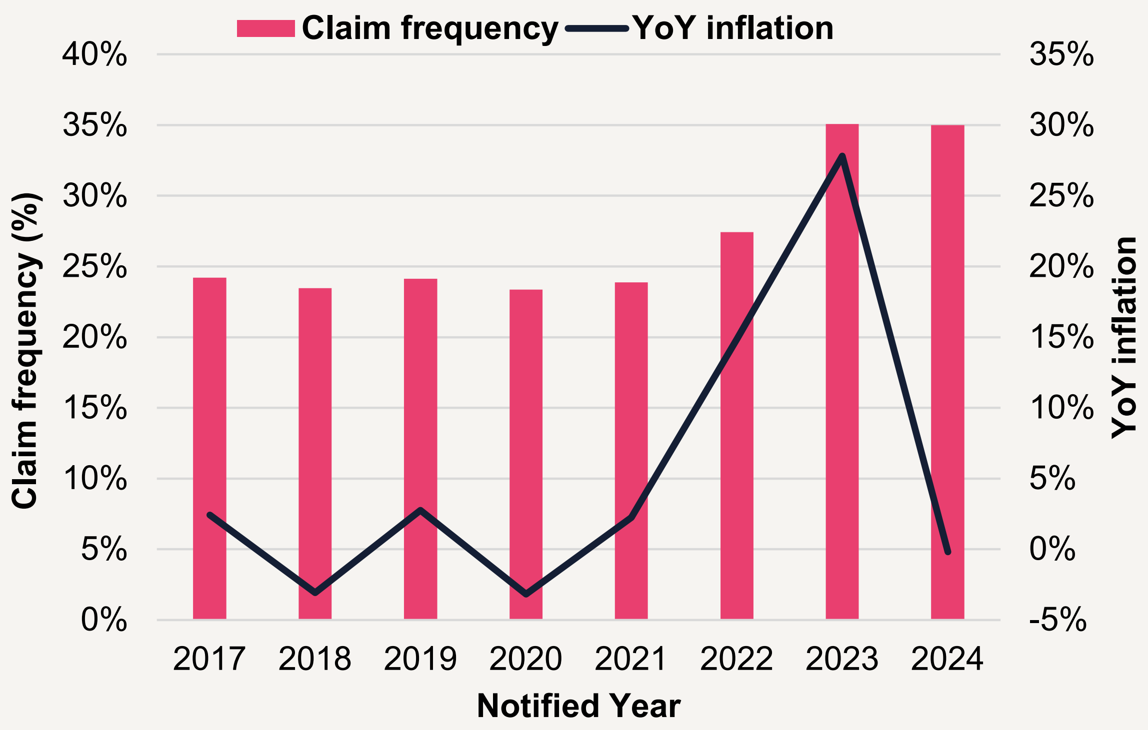
The chart below shows market gross loss ratios split by Dog and Cat business. Historically, Cat business has been more profitable than Dog business.

However, with the pet market becoming increasingly competitive over recent years, these **profits have been eroded and now performance for these two pet types is more aligned**.



Source: ABI market stats, year-end 2024

Pet – market claims frequency

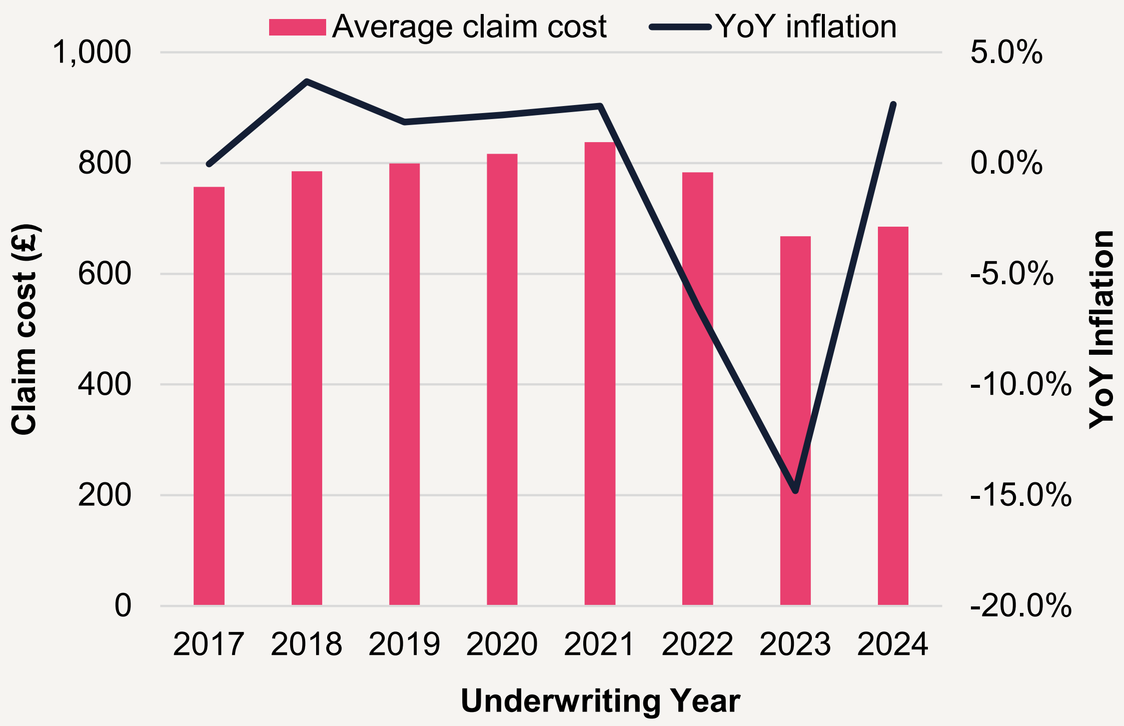


In focus – claim frequency trends

- Following a period of broadly stable claims frequency, the market experienced significant increases in frequency over 2022 and 2023.
- The increase during 2022 may relate to a change in the mix of exposure, with more first-time pet owners entering the market. We expect that these owners may be more inclined to seek veterinary care for minor health concerns.
- The increase over 2023 reflects a continuation of the change in exposure post-pandemic, likely exacerbated by an increases in owners' propensity to make claims, potentially impacted by cost-of-living pressures.
- Frequency in 2024 appears to have stabilised but remains high.

Source: ABI market stats, year-end 2024

Pet – market average claim cost



In focus – average claim cost trends

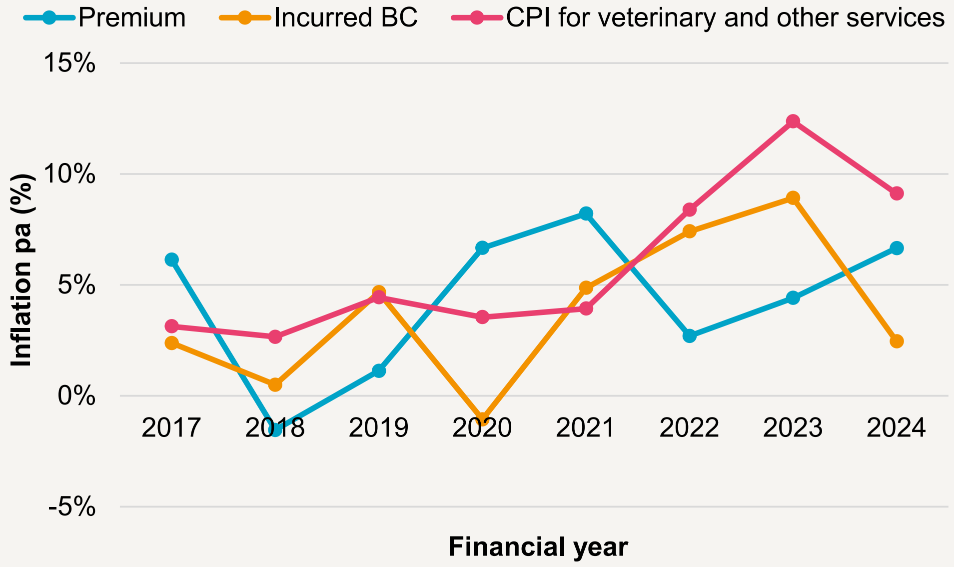
- Between 2017 to 2021, average claims costs inflated by c.3% pa at a market level.
- Over 2022 and 2023, the average cost of pet claims reduced.
- Reductions are likely driven by cost-of-living pressures which may have influenced policyholder behaviour, eg pet owners claiming for smaller claims than they had previously.

Source: ABI market stats, year-end 2024

Pet – projections for 2025 and 2026

Inflationary pressures

The chart below compares inflation in average premiums and incurred burning cost with inflation in the CPI for ‘veterinary and other services for pets’.



Incurred burning cost inflation increased from 5% pa in 2021 to 9% pa in 2023. This was similar to the increasing trend in the CPI for ‘veterinary and other services for pets’ over the same period. Over 2024, incurred burning cost inflation reduced to c. 3% pa, lower than both the index and premium inflation.

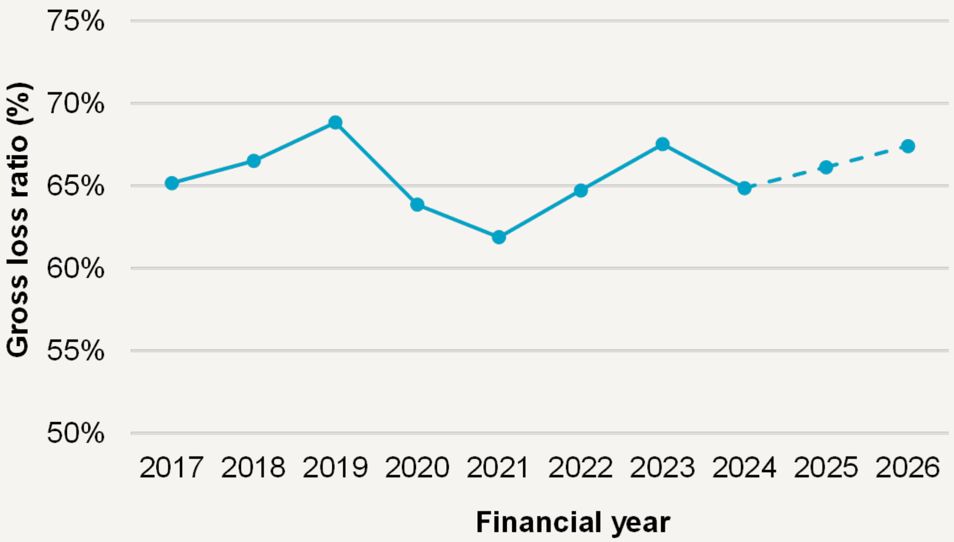
2024 marked the first time in 3 years that premium rate increases exceeded burning cost inflation.

Gross loss ratios

We have projected that **market level gross loss ratios will increase to 66% and 67% in 2025 and 2026, respectively**.

This reflects the continued inflationary pressures, as well as increased competition as new entrants join the market.

Our projections for gross written premiums and gross incurred claims are set out on the next page.



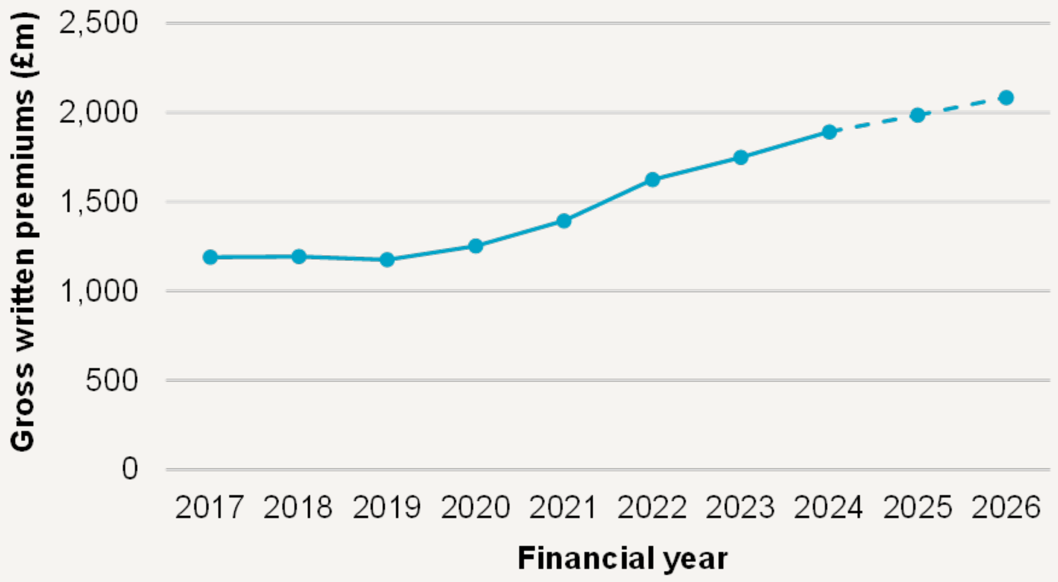
Source: ABI market stats, year-end 2024

Pet – projections for 2025 and 2026

Gross written premiums

Market **premiums are projected to increase by 5%** year-on-year in 2025 and 2026. This reflects the recent trend seen in market data.

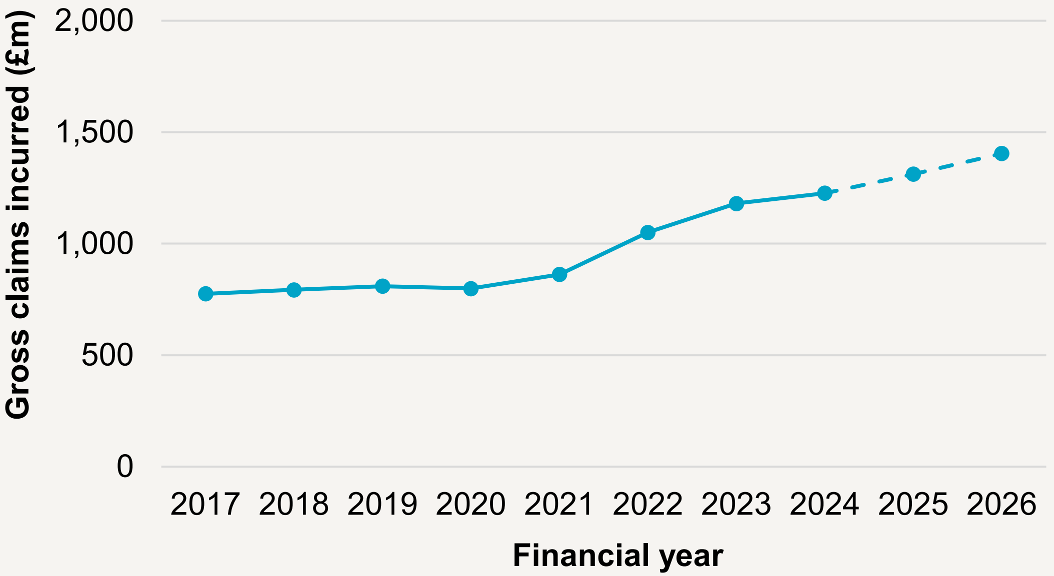
Increases in premiums are driven by inflationary pressures, partially offset by increasing competition in this market.



Gross claims incurred

Market **claims incurred are projected to increase by 7%** year-on-year into 2025 and 2026. This is driven by inflationary pressures.

When projecting claims experience, we consider historical market data as well as the relationship between claims inflation and inflation in the CPI for veterinary and other services.



Source: ABI market stats, year-end 2024

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