Household Claims
Deflation Report
2011 to 2012

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EXECUTIVE SUMMARY

The purpose of this report is to provide a forecast of annual household property claims deflation for the remainder of 2011 and 2012.

A summary of our core findings are as follows:

BUILDINGS

Overview

- Total value of Construction output fell in 2010 to €11.73 billion, a 35 % fall on the previous year
- Housing output fell to 14,602 units in 2010, a 45% reduction on 2009
- Tender levels on large projects have returned to equivalent 1998 levels
- The Construction Industry Federation reports construction employment stood at 140,000 at end of 2010 (from peak of 400,000 in 2007) with suggestion of a further fall of 60,000 by end of 2011
- Census 2011 reports 294,202 vacant dwellings which represents 14.7% of the housing stock

Material Costs

We estimate material costs will continue to reduce in the remainder of 2011 and 2012 as follows;

- 2011 -0.5%
- 2012 -1.0%

Labour Costs

Competitive dynamics within the economy, with a greater supply of labour, will maintain labour cost reductions in the medium term. We estimate deflation as follows;

- 2011 -9.0%
- 2012 -5.0%

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Price competition in the high street stores is now intense, in order to increase sales and activity levels, and in view of this competitive environment, we expect the cost of household content claims to marginally reduce in the next 18 months as follows:

- 2011 -2.0%
- 2012 -3.0%

DEFLATION FORECAST 2011 - 2012

Based upon the detailed research undertaken, the current subdued economic environment and our knowledge of the market, we estimate household claims cost deflation, on an annual basis, for 2011 and 2012 as follows:

	2011	2012
Materials	-0.5%	-1.0%
Labour	-9.0%	-5.0%
Buildings (Weighted: Materials 30:70 Labour)	-6.4%	-3.2%
Contents	-2.0%	-3.0%
Forecast Deflation (Weighted: Buildings 3:1 Contents)	**-5.30%**	**-3.15%**

1. CONSTRUCTION SECTOR OVERVIEW

The construction industry has been in freefall for the past two years with a much reduced level of activity in 2011 to date with the outlook remaining bleak. The industry peaked in 2007 with output at €38 billion. At 24% of GNP this was an unsustainable level and since then the industry has declined rapidly and to just €11.73 billion in 2010 and less than 9% of a much reduced GNP.

A review of 2010/2012 activity, has established the following key indicators:

§ Total value of Construction output fell in 2010 to €11.73 billion, a 35 % fall on the previous year

§ Housing output fell to 14,602 units in 2010, a 45% reduction on 2009

§ Tender levels on large projects have returned to equivalent 1998 levels

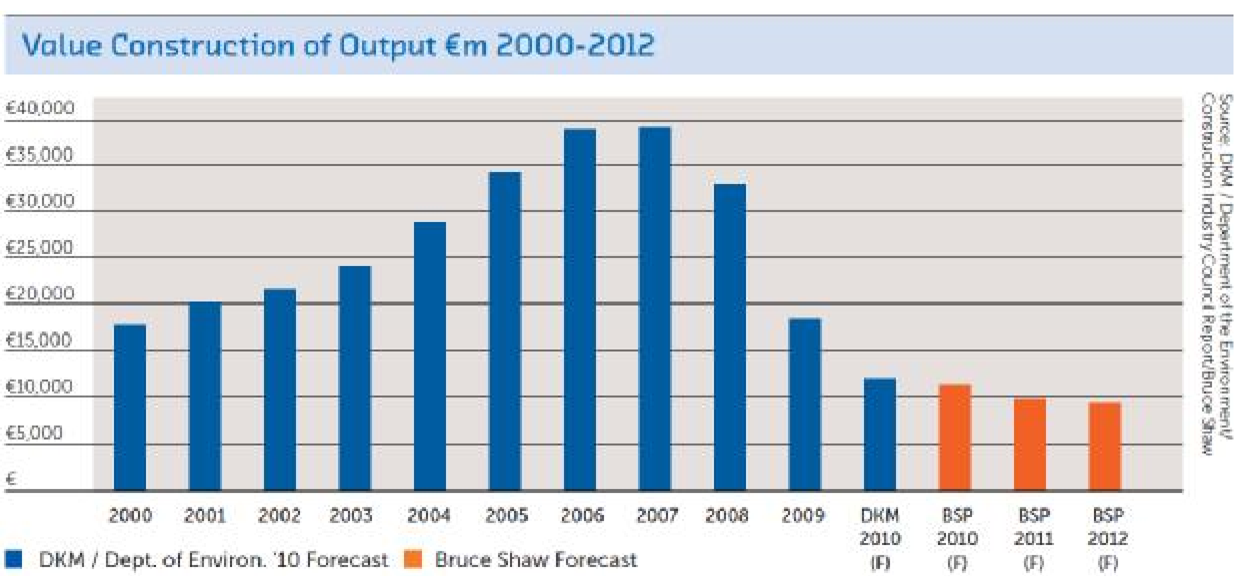
§ The Construction Industry Federation reports construction employment stood at 140,000 at end of 2010 (from peak of 400,000 in 2007) with suggestion of a further fall of 60,000 by end of 2011

§ Census 2011 reports 294,202 vacant dwellings which represents 14.7% of the housing stock

CONSTRUCTION SECTOR REVIEW

Construction output for 2010 was down 70% from 2007 with the year-on-year variance being -16% in 2008, -45% in 2009 and -35% in 2010. It is predicted that output in 2011 will fall to a mere €9.5 billion, representing a massive fall of 75% from the peak (per Bruce Shaw).

The table below graphically shows this decline:



Construction Output 2006-2010

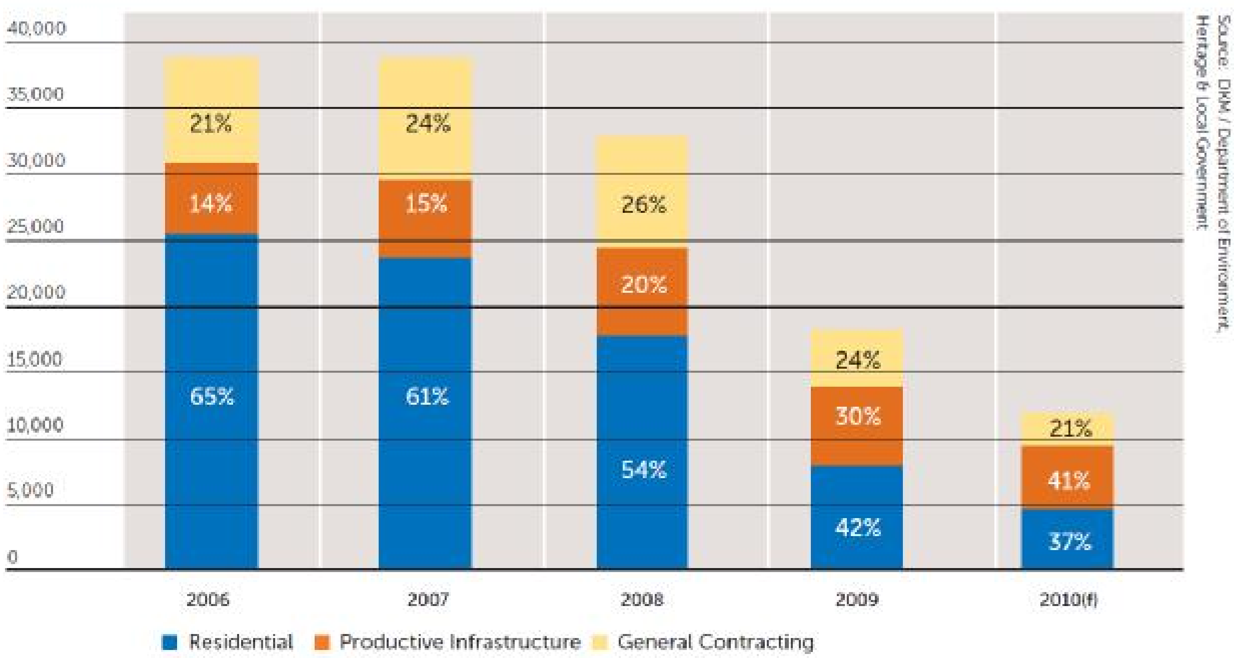
	2006	2007	2008	2009	2010 (f)
Value of Output at Current Prices (€m)	38,631	38,601	32,593	18,048	11,733
Change in Value of Output (%)	14%	0%	-16%	-45%	-35%
Value of Output (constant '08 Prices €m)	34,838	35,057	32,593	20,646	14,540
Change in Volume of Construction Output %	10%	1%	-7%	-37%	-30%
Construction Output as % of GNP	25.1	23.7	21.1	13.8	9.2

Source: DKM / Department of the Environment

While the peak level of output was unsustainable, the 2011 forecast of €9.5 billion is only approximately half the widely acknowledged sustainable level of output of €18 billion. The inevitable result of such a low level of output will unfortunately be further job losses in the industry and the failure of more construction and consultancy firms.

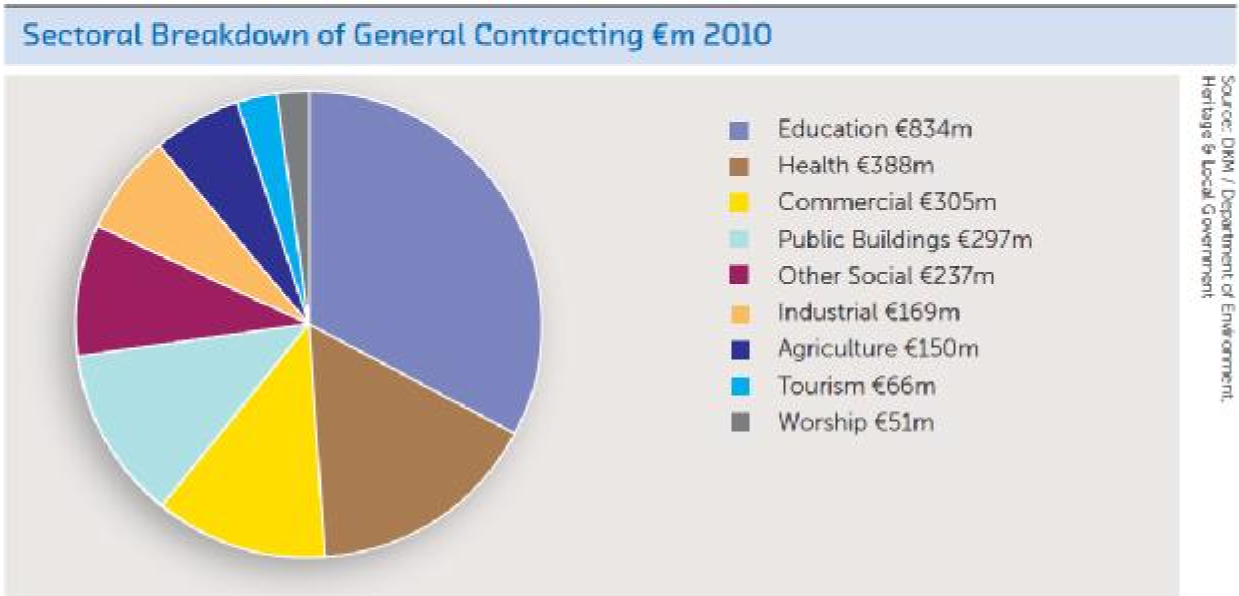
The sector breakdown of construction output between Residential, Productive Infrastructure (Civil Engineering) and General Contracting for the period 2006 to 2010 is as follows:

Sectoral Breakdown of Construction Output €m 2006- 2010



	2010		2009	
Residential	€4.37 billion	37%	€ 7.65 billion	42%
Productive Infrastructure	€4.86 billion	42%	€ 5.99 billion	33%
General Contracting	€2.50 billion	21%	€ 4.41 billion	25%
Total	**€11.73 billion**	**100%**	**€ 18.05 billion**	**100%**

A split on the figures for a General Contracting for 2010 is:



A review of construction activity by sector for 2009 and 2010 makes for a very stark reading. All sectors, without exception, have been affected by the collapse of the construction bubble and by the challenging economic environment. All housing indicators are profoundly weak following a period of rapid contraction over recent years.

An Ulster Bank Construction Purchasing Managers Index (PMI) report (July 2011) notes that the Irish construction sector moved further away from recovery at the end of the first half of 2011, as activity and new business both contracted at sharper rates than in the previous month. Their index, a seasonally adjusted index designed to track changes in total construction activity, decreased in June 2011 to 40.5 from 41.1 in May 2011, to signal a further steep decline in activity. Moreover, the rate of contraction accelerated for the fourth consecutive month, and was the sharpest since May 2010. They further note, as has been the case for most of the past year, the weakest subsector is Civil Engineering (Productive Infrastructure) which continues to contract at a particularly sharp pace. As they look to the second half of the year, near-term prospects for the sector as a whole don't look bright, as incoming orders for new business in June fell at their fastest pace since late last year.

The fragile state of General Contracting is evident from the exceptional drop in new construction activity over the past 2 to 3 years, which reflects a range of issues impacting on this sector such as the fall in overall confidence amongst clients affected by employment losses, high debt, liquidity issues, uncertainties over NAMA and the exceptional oversupply situation.

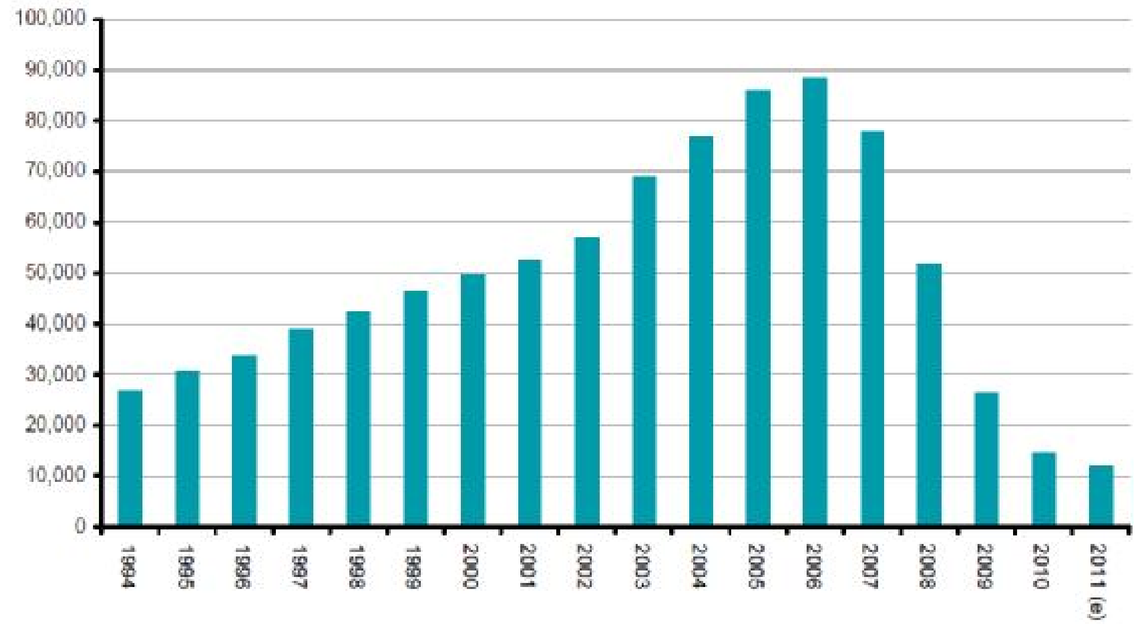
In the Public Sector, the picture is one of a number of large projects finishing up with few projects emerging to take their place. This trend has been exacerbated by the reduction in the public capital programme over the past two years.

HOUSING

The number of house completions to May 2011 is 4443 units (a 27% decline compared to the same period in 2010), and the projection for the year is circa 8,000 units. This compares to 14,602 units in 2010 and 26,420 units in 2009. This is a long way from the peak in 2006 of circa 90,000 units.

The DoE correlates monthly data on Irish house completions. The 2011 Q1 figure shows 2766 units. This compares with 3804 units in Q4 and 3600 units in Q3 of 2010. The pace of decline has slowed with the Q1 figure some 26% down on the previous year, against 37% in the previous quarter and a pace of over 50% annual decline in 2009.

House Completions



According to the Bank of Ireland Irish Property Review, the Q1 figures also confirm another recent trend – the growing importance of single houses in the total and the corresponding decline in housing developments, the former presumably built to demand. At the peak of the boom individual houses accounted for a quarter of all completions but this has risen to 54% by 2010 and to 55% in the first three months of 2011. This change may partly account for another recent phenomenon – the growing divergence between bond registrations and house completions. Such registrations, an insurance bond taken out by builders when embarking on a development, were generally seen as a proxy for housing starts and as such a good estimate of future completions. That relationship has collapsed. Registrations amounted to only 3700 in 2009, for example, against completions of over 14,600 in 2010 (a 45% decline compared to 2009) and the predictive power of the former appears to have diminished further of late; registrations fell to only 304 in the third quarter of 2010, implying a very weak completion figure for the first quarter of 2011, and not the 2766 total that emerged(registrations for Q1 2011 is 274).

An additional explanation for this divergence relates to the measurement of house completions, which are counted when the house is connected to the electricity grid. On that basis some of the most recent completions may have been finished for some time but only connected when sold or when put more actively on the market.

Irish Housing Supply

	Housing Completions	New Home Registrations
1996	33,700	23,769
1997	38,842	27,080
1998	42,349	29,067
1999	46,512	33,852
2000	49,812	34,613
2001	52,602	28,845
2002	57,695	51,157
2003	68,819	56,859
2004	76,954	60,782
2005	86,000	62,284
2006	88,400	66,650
2007	78,027	38,352
2008	51,724	12,676
2009	26,420	3,743
2010	14,602	1,680

DoE

The recent census found that the growth of new homes in Ireland between 2006 and 2011 (13.3%) was almost double the increase in our population (8.1%). As a result there are 294,202 vacant homes across Ireland as noted below:

Province	Housing Stock 2011	Vacant Dwellings	Vacancy Rate
Leinster	1,035,298	109,528	10.6%
Munster	564,365	94,163	16.7%
Connaught	261,113	55,560	21.3%
Ulster (part of State)	143,399	34,951	24.4%
	2,004,175	294,202	14.7%

The equivalent figures for Dublin are as follows:

Council Area	Housing Stock 2011	Vacant Dwellings	Vacancy Rate
Dublin City	242,388	26,003	10.7%
Dún Laoighaire-Rathdown	86,088	6,865	8.0%
Fingal	103,295	7,453	7.2%
South Dublin	97,541	5,382	5.5%
Total Dublin	529,312	45,703	8.6%

Again according to the Bank of Ireland Property Review (June 2011), loans for house purchases fell to €3.8 billion in 2010 from a cycle high of €28 billion in 2006 with the number of new mortgages in this category dropping to 18,300 from over 110,000 in 2006. The downward trend shows no signs of abating judging from the figures now available for the first quarter of 2011. The value of new mortgage lending was just €576 million in Q1, or some 53% below the corresponding period of 2010 with a similar percentage fall in the volume of loans, to some 3,300. For house purchases there were only 2300 loans, the total value of €466 million, or half the level a year earlier. The table below shows this dramatic trend:

Mortgage Lending for House Purchase

	No. of Mortgages	Average Value (€000)	Total Market (€bn)
2005	110,500	220	24.4
2006	110,800	251	27.8
2007	84,200	267	22.5
2008	53,600	270	14.5
2009	25,100	232	5.8
2010	18,300	207	3.8

Medium-Term Prospects for Construction

Construction industries, just like the economy, generally tends to be subject to fluctuations in activity levels. Such fluctuations give rise to cycles which can involve shifts over time between periods of relatively rapid growth in output and periods of relative stagnation or contraction. These fluctuations tend generally to be measured using GNP but they can also be measured using output in the construction sector. They do not follow any predictable periodic pattern but will be influenced at any point in time by a number of factors, including government policy, the state of the public finances, trends in interest rates, income and employment, demographics, the level of public and private sector investment and the level of confidence in the economy.

The Irish construction sector is no exception. The most recent construction cycle commenced in the mid-1990s and culminated in the rapid acceleration in the growth in construction output until 2006/2007. This was quickly followed by the most severe contraction since records began. That contraction has continued in 2010 and is expected to persist over the medium-term. All available indicators show almost a collapse in output, prices and employment. Activity levels in the industry have come to a virtual standstill.

Most of the large contracting firms are now focusing their activities into the UK and further afield in order to generate turnover whilst still maintaining a base in Ireland.

The Ulster Bank Construction PMI report of July 2011 notes that although optimism regarding future activity levels was again recorded in June, this largely reflected the weakness of current economic conditions rather than expectations of improvements over the coming year. This level of optimism remained solid, despite falling to the lowest in four months.

CONSTRUCTION COSTS AND PRICES

It is important to distinguish between tender prices and construction input costs. The former are subject to market pressures while the latter reflect the actual cost of labour and materials.

Construction labour rates have remained unchanged since 2008 but after protracted negotiations, unions and employers have recently agreed a wage reduction of 7.5%.

The CSO Wholesale Price Index for building and construction materials provides an indication of price trends for both home produced building materials and imports. The index measures the actual prices paid for materials purchased by construction and civil engineering companies throughout the country. Thus prices subject to long and short-term contracts as well as for high and low volume civil engineering works are also included. As a result long-term high-volume fixed contracts for major works may dilute the impact of price changes notified by building and material suppliers. The index therefore provides only a general indication of building material price trends in the construction sector.

The index for building materials peaked in September 2008 and by June 2009 had declined by 4.6%. Prices started to decline in year-on-year terms in February 2009 but the rate of change had moved back into positive territory by February 2010. The year-on-year figures for 2011 versus 2010 show January 3.9%, February 4.0%, March 3.1%, and April 3.0%.

The CSO Wholesale Price Index (May 2011) notes that with regard to building construction, all material prices increased by 2.1% in the year since May 2010. The most notable yearly changes were:

- Copper pipes and fittings 29.1%
- Insulating materials 11.0%
- Other timber excluding windows and doors 8.3%
- Structural steel and reinforcing metal 6.0%
- Rough timber (including plain sawn) 5.4%
- Paints, oils and varnishes 4.3%
- Concrete blocks and bricks 3.4%
- Glass 3.1%
- PVC pipes and fittings -12.5%
- Stone, sand and gravel -4.7%
- Precast concrete -3.5%

TENDER LEVELS

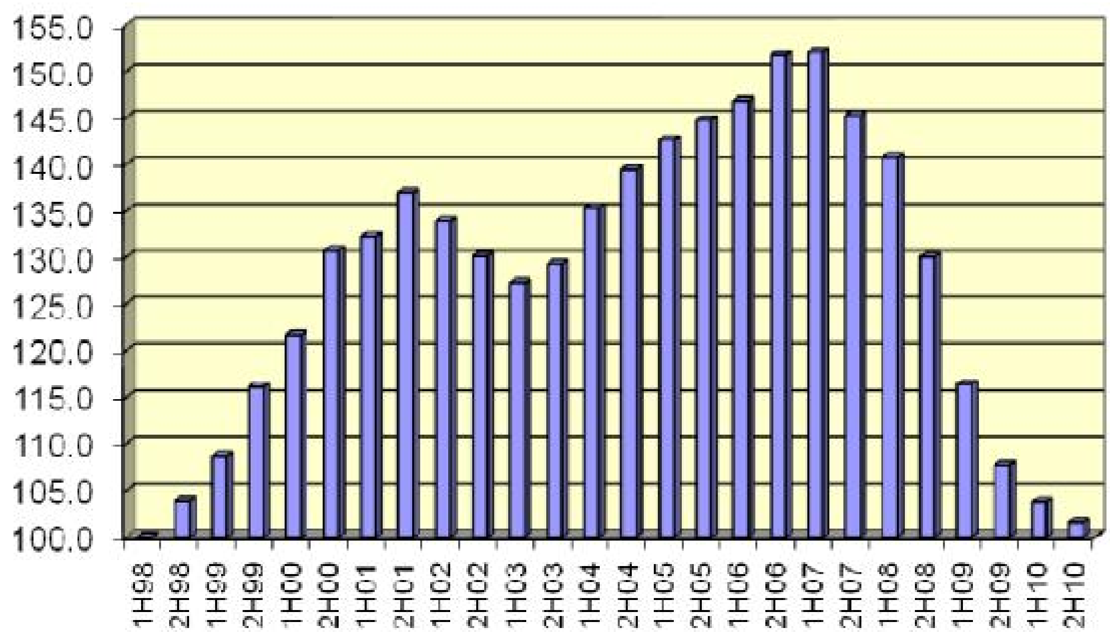
The tender price index prepared by the Society of Chartered Surveyors is based on actual tender returns for non-residential projects during the period in question. It is based predominantly on newbuild projects with values in excess of €0.5 million and covers all regions of Ireland. The index is therefore a measure of average price increases across differing project types and locations.

The latest Tender Price Index shows construction tender prices fell marginally in the second half of 2010 but there are indications that they may now be close to bottoming out. The index for the second half of 2010 shows a decrease of 2.1% since the first half of the year and a fall of 5.8% for the year as a whole.

The index numbers since 1998 are as follows:

First Half 1998	100.0	Second Half 2004	139.4
Second Half 1998	103.8	First Half 2005	142.6
First Half 1999	108.6	Second Half 2005	144.7
Second Half 1999	116.1	First Half 2006	146.7
First Half 2000	121.7	Second Half 2006	151.7
Second Half 2000	130.7	First Half 2007	152.0
First Half 2001	132.2	Second Half 2007	145.2
Second Half 2001	136.9	First Half 2008	140.7
First Half 2002	133.9	Second Half 2008	130.0
Second Half 2002	130.1	First Half 2009	116.4
First Half 2003	127.2	Second Half 2009	107.7
Second Half 2003	129.3	First Half 2010	103.7
First Half 2004	135.3	Second Half 2010	101.5

The second half 2010 compared to the peak in the first half 2007 shows a reduction of 33.2%. Graphically, the entire period since the inception of the SCS index in 1998, is demonstrated below:



The SCS comments that the graph illustrates the dramatic fall in construction tender prices which are now very close to the levels they were at when the index began in 1998. The fall in prices has however slowed down since the second half of 2009 and there are signs emerging that prices may be approaching their floor. They also note there is a growing

awareness in the industry that pricing work at below cost and not pricing risk items in tenders is unsustainable. Unfortunately this has been borne out by the high number of contract and subcontractor company failures. However there is still a severe shortage of work within all sectors of the industry and it is expected that pricing levels will remain very competitive for the foreseeable future.

Bruce Shaw also track tender prices and construction input costs. Their tender price index reflects changes in prices charged for construction and is compiled from a large database of tenders, circa €550 million of diverse construction (excluding civil engineering) projects.

In their 2011 report they note that their Tender Price Index shows that Irish construction prices peaked in 2007 and that by the end of this year they will have fallen by 35%. This will leave construction prices at levels not seen since 1997. They comment that the fall in construction prices was most dramatic during 2008 and 2009 but that the fall continued last year with prices reducing on average by a further 6% during 2010. They add that looking forward the industry remains very depressed with a shortage of work in all sectors both public and private. They also state the practice of below cost tendering is therefore likely to continue and they predict that prices will continue to decline during 2011, but at a slower rate of 3%. They predict that prices are then likely to remain at this level for 2012 before increasing slightly in line with general inflation from 2013/14 onwards.

With respect to the Bruce Shaw Construction Input Cost Index they state that overall the index declined by 3% in 2010 and they predict that it will fall by a further 3% in 2011 before bottoming out at that level in 2012.

The combined Bruce Shaw Tender Price and Costs Indices 2001 – 2012 is shown below:

Tender %	6	-2	-4	4	4	3	0	-12	-17	-6	-3	0
Cost %	9	3	3	2	3	3	3	3	-2	-3	-3	0

The Black Economy

On the 11th July 2011 the RTE News website had an article titled ‘Construction Nixers Deprive Exchequer of €2bn’.

The article refers to a memo to the Construction Industry Federation wherein a revenue official acknowledged that during a recession, the potential for black economy activity outside the tax net increases. Revenue is focusing it’s enforcement activities on sectors which have the potential to operate using cash and which poses the greatest risk to the Exchequer. Revenue has included the construction sector in that category, with it’s compliance programs targeting one-off housing and repair and renovation projects for private consumers. The memo states that due to the collapse in the construction sector, there is a huge surplus of construction capacity competing for one-off construction jobs, resulting in intense competition for jobs..

2. BUILDING CLAIMS DeFLATION

A lot of the information provided in the Construction Sector Overview is taken from sources that are primarily focused on larger scale projects. Nonetheless this does have an impact on the domestic insurance claims arena given the oversupply of resources and competition for work.

Materials

Whilst there was a 2.1% increase in material costs year-on-year May 2010 to May 2011, the increase since January 2011 to May 2011 is 0.3%. In reviewing the index and extracting the materials most commonly encountered in domestic claims such as paint, timber, insulating materials, concrete block work, glazing, steelwork, the increase from the start of the year varies between 1.0% and 3.0% apart from insulating materials at 9.98% and copper 4.69%. There were also a number of decreases ranging between -1.52% to -3.3% for electrical fittings, ready mixed mortar and concrete, stone, sand and gravel. Consequently bearing this mix of increases and decreases being currently experienced, we would predict that for the remainder of 2011 material costs relative to domestic claims will decrease by -0.5%. It must also be borne in mind that any fluctuation or increase in energy costs used in the manufacturing of materials could have a bearing on this.

In this regard we note the announcement from Bord Gáis on the 13th July 2011 that they will be increasing residential electricity prices by 12% from the 1st August 2011 and also propose increasing residential gas prices from the 1st October 2011. Bord Gáis comment that the wholesale price of gas (used in the production of electricity) has increased by 39.0% in the past 12 months and, on the basis of forward prices is currently priced 30% higher this winter than last. Other energy suppliers are expected to follow with price rises also. Whilst there is no comment by Bord Gáis on commercial customer rates, this is indicative nonetheless that energy price increases can be expected and will impact on manufacturing costs. To what extent manufacturers can absorb any such increases remains to be seen. We would not expect this to impact on manufacturing costs related to construction materials to any significant degree for the remainder of 2011.

With regard to 2012, costs could potentially rise if inflation in the worldwide economy increases along with energy costs which would have an impact on imported raw materials or finished products and we would therefore predict that there could be an increase of 1.0%.

- 2011 -0.5%
- 2012 1.0%

Labour

In a report in the Irish Times on July 11th, 2011, there is mention that the Construction Industry Federation has threatened to withdraw from the sectoral wage setting mechanisms which decide pay rates for construction workers if the Minister for Enterprise reform plan fails to bring down pay costs for building firms. The director-general of the CIF has warned the Government that wage rates in the Republic were 40% higher than those in Northern Ireland and 25% higher than in England

A 7.5% wage cut was ratified by the Labour Court in January 2011 and was applicable from 4th February 2011. Whilst this is welcome news, we would consider that contractors in a bid to secure work could impact further on labour costs particularly in counties close to the

border with Northern Ireland. Given the turmoil in the marketplace it is by no means clear as to how long the Registered Employment Agreements will endure.

For 2011 we would expect labour costs reduction of circa -9% with a smaller reduction of -5% in 2012.

- 2011 -9.0%
- 2012 -5.0%

3. RETAIL SALES & CONSUMER PRICE INDICES

RETAIL SALES INDEX

The most up to date RSI Statistics are for May 2011, and these show annual % reductions of -2.1% in volume and -1.5% in value, whilst the month itself shows increases of 1.3% in volume and 1.1% in value.

The above figures are skewed by the motor trade sector, which had a buoyant year's trading, mainly driven by the Government's generous scrappage scheme.

If the current May 2011 statistics are adjusted to exclude the impact of the motor trade sector, the annual volume and value reductions decline to -5.1% volume and -3.5% value.

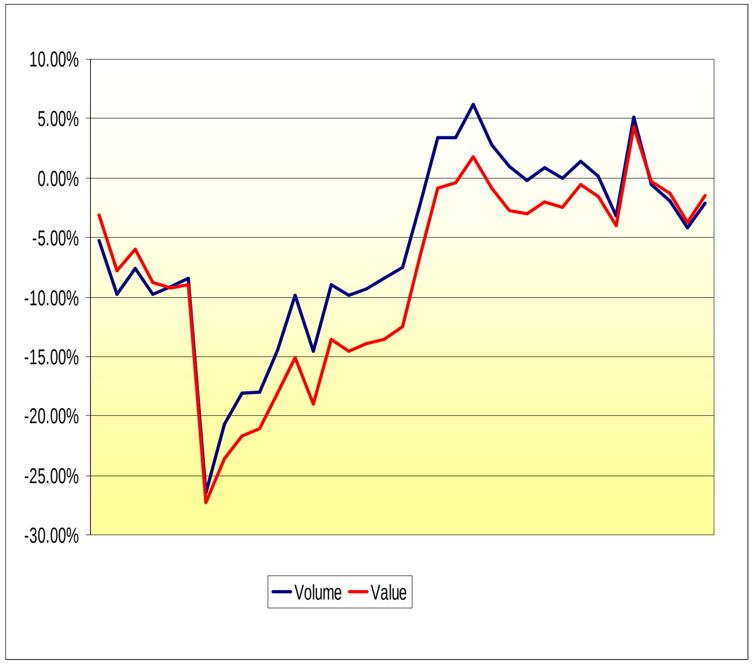
The key annual, to May 2011, % movements in both volume and price by business category are:

	Volume	Value
Motor Trade	13.0%	9.2%
Department Stores	-3.5%	-3.2%
Food, Beverage & Tobacco	-4.3%	-3.9%
Fuel	-9.9%	1.1%
Pharmaceutical	-5.6%	-4.6%
Clothing, Footwear & Household	-7.8%	-7.6%
Furniture & Lighting	-7.2%	-10.4%
Hardware, Paint & Glass	-13.9%	-14.5%
Electrical Goods	2.9%	-3.1%
Books & Newspapers	-9.6%	-7.3%

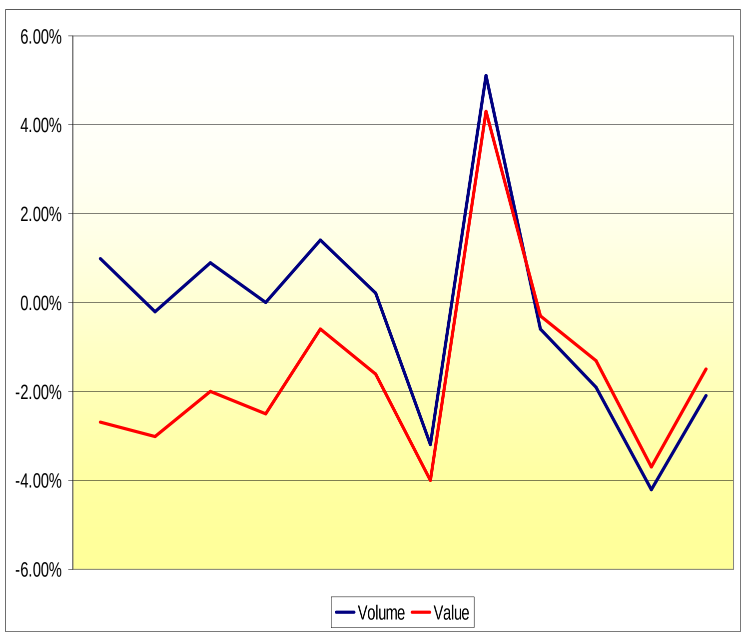
As can be seen from the above data, and the statistics and graphs on the following page, customer confidence remains depressed, and both volume and value activity, excluding motor trades is negative, annualised to May 2011.

HISTORIC RETAIL SALES INDICES

	Month	Volume	Value
2008	July	-5.3%	-3.1%
	August	-9.8%	-7.8%
	September	-7.6%	-6.0%
	October	-9.8%	-8.8%
	November	-9.1%	-9.2%
	December	-8.4%	-9.0%
2009	January	-26.5%	-27.3%
	February	-20.7%	-23.6%
	March	-18.1%	-21.7%
	April	-18.0%	-21.1%
	May	-14.5%	-18.1%
	June	-9.9%	-15.1%
	July	-14.6%	-19.0%
	August	-9.0	-13.6%
	September	-9.9%	-14.6%
	October	-9.3%	-13.9%
	November	-8.4%	-13.6%
	December	-7.5%	-12.5%
2010	January	-2.2%	-6.5%
	February	3.4%	-0.8%
	March	3.4%	-0.4%
	April	6.2%	1.8%
	May	2.8%	-0.8%
	June	1.0%	-2.7%
	July	-0.2%	-3.0%
	August	0.9%	-2.0%
	September	0.0%	-2.5%
	October	1.4%	-0.6%
	November	0.2%	-1.6%
	December	-3.2%	-4.0%
2011	January	5.1%	4.3%
	February	-0.6%	-0.3%
	March	-1.9%	-1.3%
	April	-4.2%	-3.7%
	May	-2.1%	-1.5%



July 2008 – May 2011

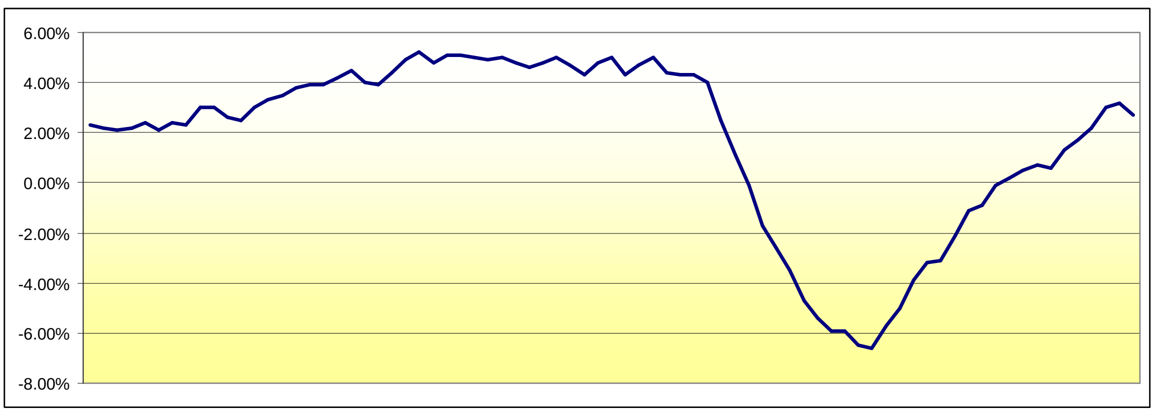


June 2010 – May 2011

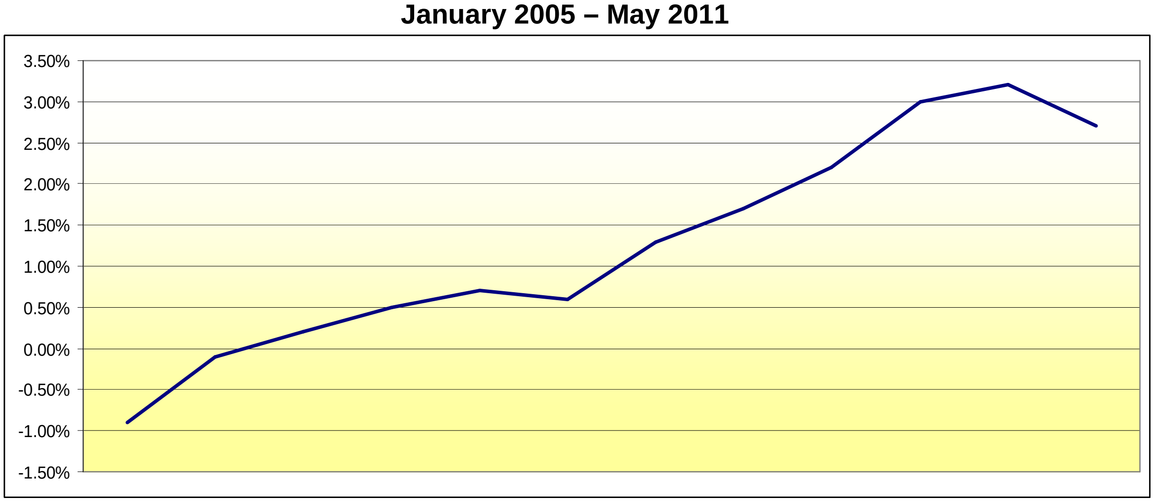
CONSUMER PRICE INDEX

Historic CPI % annual change statistics to May 2011, in both tabular and graphical format, are as follows:

	2011	2010	2009	2008	2007	2006	2005
January	1.7%	-3.9%	-0.1%	4.3%	5.2%	3.0%	2.3%
February	2.2%	-3.2%	-1.7%	4.8%	4.8%	3.3%	2.2%
March	3.0%	-3.1%	-2.6%	5.0%	5.1%	3.5%	2.1%
April	3.2%	-2.1%	-3.5%	4.3%	5.1%	3.8%	2.2%
May	2.7%	-1.1%	-4.7%	4.7%	5.0%	3.9%	2.4%
June	-	-0.9%	-5.4%	5.0%	4.9%	3.9%	2.1%
July	-	-0.1%	-5.9%	4.4%	5.0%	4.2%	2.4%
August	-	0.2%	-5.9%	4.3%	4.8%	4.5%	2.3%
September	-	0.5%	-6.5%	4.3%	4.6%	4.0%	3.0%
October	-	0.7%	-6.6%	4.0%	4.8%	3.9%	3.0%
November	-	0.6%	-5.7%	2.5%	5.0%	4.4%	2.6%
December	-	1.3%	-5.0%	1.1%	4.7%	4.9%	2.5%



January 2005 – May 2011



June 2010 – May 2011

The annual CPI % change to May 2011 was 2.7%, and the change for the month of May itself was 0.1%.

The annual rate of inflation for services was 3.6%, and for goods 1.4%.

The most notable sector changes during the year were:

Housing, Water & Utilities	8.5%
Miscellaneous Goods & Services	8.4%
Communication	4.1%
Health	4.0%
Transport	3.1%
Household Goods	-1.9%

The key driver in relation to the 8.5% increase in housing water and utilities is increased mortgage and energy costs.

As can be seen from the tabular data on the previous page, since August 2010, there has been CPI annual inflation of between 0.2% - 3.2%, albeit from a lower relative base. Prior to August 2010 there was CPI annual deflation between December 2009 – July 2010.

4. CONTENTS CLAIMS DEFLATION

From January 2009 – July 2010, there was a period of CPI deflation, peaking at a rate of -6.6%, in October 2009.

The trend between August 2010 – May 2011, has been steady CPI inflation/deflation at a rate between 0.2% - 3.2%, with the current annualised figures for May 2011 at 2.7%.

Mortgage interest payments and energy costs are key drivers of current CPI inflation, and in general, prices for customer goods, electrical and household furniture, etc. are either remaining stable or reducing.

Price competition in the high street stores is now intense, in order to increase sales and activity levels, and in view of this competitive environment, we expect the cost of household content claims to marginally reduce in the next 18 months as follows:

- 2011 -2.0%
- 2012 -3.0%

5. FORECAST CLAIMS DEFLATION 2011 – 2012

BUILDINGS

Our forecast for the main components of household building claims inflation / deflation, on an annual basis, are as follows:

		2011	2012
Materials	(30%)	-0.5%	1.0%
Labour	(70%)	-9.0%	-5.0%

Historical analysis has demonstrated an overall claims mix of 30% materials and 70% labour, which when applied, results in a weighted average overall annual deflation forecast as follows:

	2011	2012
Building Deflation Percentage (Weighted)	-6.4%	-3.2%

CONTENTS

Price competition in the high street stores is now intense, in order to increase sales and activity levels, and in view of this competitive environment, we expect the cost of household content claims to marginally reduce in the next 18 months as follows:

	2011	2012
Contents Claims Deflation	-2.0%	-3.0%

CONCLUSION

Our historic claims experience has established, as a general benchmark, expenditure in relation to household claims is proportioned on a Buildings 3:1 Contents basis.

Therefore, in order to estimate an overall composite household deflation figure, the building and contents figures, as outlined previously, require to be pro-rataed on this basis, resulting in a weighted forecast overall claims deflation as follows:

	2011	2012
Overall Household Deflation	**-5.30%**	**-3.15%**