HOUSEHOLD CLAIMS DEFLATION / INFLATION REPORT 2014 – 2015

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30 1984 2014 osg CELEBRATING 30 YEARS

OSG (Outsource Services Group Ltd) is an independent outsource service provider to the insurance and financial services market. Originally established in Dublin in 1984 as a professional partnership under the name Farrell & Associates, we have progressed through indigenous growth, strategic recruitment and business acquisition to our current position as the premier provider of outsourced service solutions to the insurance and related financial services market. We now directly employ over 350 people.

EXECUTIVE SUMMARY

The purpose of this report is to provide a forecast of annual household property claims deflation/inflation for the remainder of 2014 and 2015.

A summary of our core findings are as follows:

BUILDINGS

Overview

- Total value of Construction output in 2013 was 8.25 billion, a rise of circa 2% on 2012
- 5% growth in construction output predicted for 2014
- Q4 2013 v Q4 2012, show a +12.1% annual change in the value of building and construction production and +11.5% change in volume
- Housing output fell to 8,301 units in 2013 with just 1,306 units in Dublin. Momentum improved towards the end of the year and this has continued in 2014 with completions up 15% in January & February on the same two months last year.
- Tender levels on large projects increased by 3.1% in 2013 while input costs rose by 1%
- CSO figures released in May 2014, show employment in construction has increased 6.2% Q1 2013 (96,300) to Q1 2014 (102,300)
- Residential property prices in the year to April increases 8.5% nationally. (Dublin +17.7%, rest of Ireland excluding Dublin +1.3%)

Material Costs

We estimate material costs will rise in the remainder of 2014 and 2015 as follows;

- 2014: 1.00%
- 2015: 1.00%

Labour Costs

With regard to domestic claims, we predict that there will be pressure on labour costs and for the remainder of 2014 and into 2015. We estimate inflation as follows;

- 2014: 0.50%
- 2015: 1.25%

CONTENTS

We expect the cost of household content claims to reduce in the next 18 months as follows:

- 2014: -3.00%
- 2015: -3.50%

DEFLATION/INFLATION FORECAST 2014 - 2015

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 2014 of -0.26%, and for 2015 slight inflation of +0.01%:

	2014	2015
Materials	1.00%	1.00%
Labour	0.50%	1.25%
Buildings (Weighted: Materials 30:70 Labour)	**0.65%**	**1.18%**
Contents	**-3.00%**	**-3.50%**
Forecast Deflation (Weighted: Buildings 3:1 Contents)	**-0.26%**	**+0.01%**

In conclusion, we do not foresee the cost of household claims being significantly effected by either inflation or deflation over the next 18 months. At a macro level, we are of the view current cost levels will be maintained during this period.

1. CONSTRUCTION SECTOR OVERVIEW

There has certainly been a turn of events in the construction sector in the past year with increases apparent in tender levels, housing completions hitting rock bottom, a demand for housing pushing up house prices particularly for cash buyers in the Dublin area all against a back drop of austerity measures, lack of investment funds etc. The Government published in May 2014 it's Construction 2020, a Strategy for a Renewed Construction Sector shortly after the Society of Chartered Surveyors Ireland issued it's Construction Sector Outlook 2014. The latter noted the contraction of the industry from output in 2006 of 34bn to around €8bn in 2013 with a modest growth of 5% expected for 2104, averaging 5.6% in the years to 2018. Employment dropped from a high of 376,000 to 150,000. Government expenditure which accounts for around 50% of output declined from €9bn pa in 2008 to €3.4bn in 2013 and is now back to 1999 levels. The new Building Control (Amendment) Regulation 2014 will hopefully introduce measures that will mitigate against the likes of 'Priory Hall' arising but there is an attendant cost to these measures.

Some overview observations on the construction sector are:

- Total value of Construction output in 2013 was €8.25 billion, a rise of circa 2% on 2012
- 5% growth in construction output predicted for 2014
- Q4 2013 v Q4 2012, show a +12.1% annual change in the value of building and construction production and +11.5% change in volume
- Housing output fell to 8,301 units in 2013 with just 1,306 units in Dublin. Momentum improved towards the end of the year and this has continued in 2014 with completions up 15% in January & February on the same two months last year.
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- Residential property prices in the year to April increases 8.5% nationally. (Dublin +17.7%, rest of Ireland excluding Dublin +1.3%)

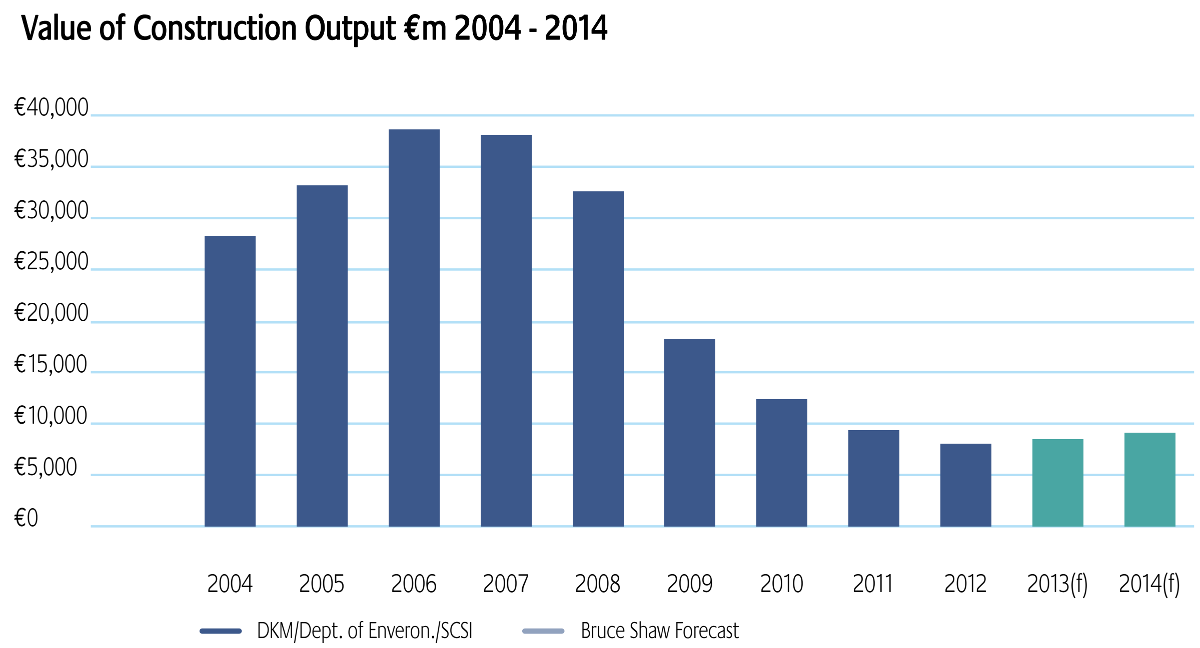
CONSTRUCTION SECTOR REVIEW

Bruce Shaw in the Ireland Handbook 2014 note the volume of construction output bottomed out in 2013 and started to recover slowly during the second half of the year showing an increase of 2% on 2012. They predict an increase of 8% for 2014 attributing this to a 5% value increase and 3% inflation.

Construction Output 2007 - 2014

	2007	2008	2009	2010	2011	2012	2013	2014(f)
Value of Output at Current Prices (€m)	38,601	32,593	18,048	12,189	9,408	8,079	8,250	8.950
Change in Value of Output (%)	0%	-16%	-45%	-32%	-23%	-14%	2%	8%
Construction Output as % of GNP	23.9%	21.0%	13.5%	9.2%	7.2%	6.1%	6.0%	6.4%
Source: DKM/Dept of Enviroment/Forás/Bruce Shaw								

The chart below graphically shows construction output between 2007 and 2014:



Source: DKM/Dept of Environment/Farfás/Bruce Shaw

The Society of Chartered Surveyors Ireland in their publication 'Construction Sector Outlook 2014' note a similar trend however they predict a more modest growth of 5% for 2014. AECOM in their Annual Review 2014 forecast a 5%-7% increase for 2014.

Noting the foregoing it is evident that 2013 marked a turning point for the construction industry with predications for growth in 2014 being +5%.

Whilst this development is positive it is clear that the turnaround is not evenly spread across all of the individual sectors of the construction industry. Ulster Bank in their May 2014 Construction PMI Report state that the improvement in overall construction activity is on residential and commercial projects with civil engineering activity continuing to fall with the rate of decline being sharper between March and April 2014:

Latest Construction PMI® readings

	March 2014	April 2014
Total Activity	**60.2**	**63.5**
Housing Activity	59.9	63.4
Commercial Activity	61.3	63.6
Civil Engineering Activity	44.1	41.8

Index readings above 50 signal an increase in activity on the previous month and readings below 50 signal a decrease. All indexes given above and displayed in the charts are seasonally adjested.

Source: Markit.

The CSO in their March 2014 statistical release note that on an annual basis, the volume of output in building and construction increased by 11.5% in the last quarter of 2013 the annual rise in the volume of output reflects year-on-year increases of 34.8% and 14.1% respectively in non-residential building work. Civil Engineering decreased by 11.6% in the year to Q$ 2013:.

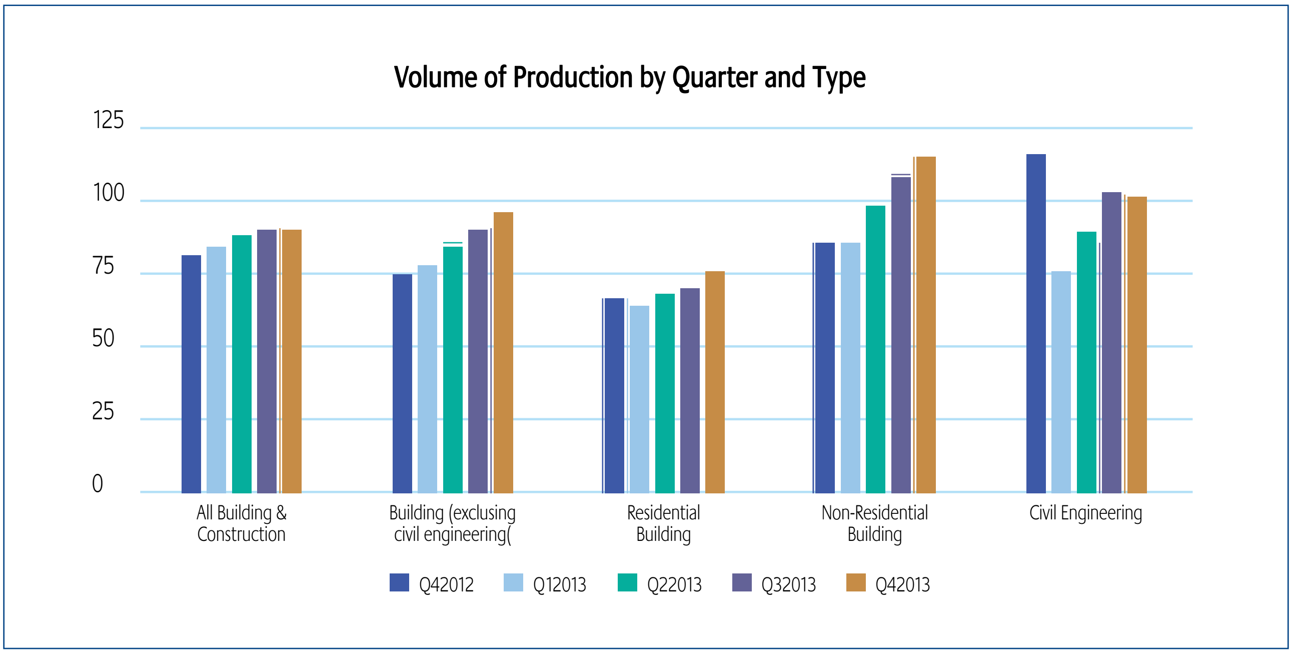


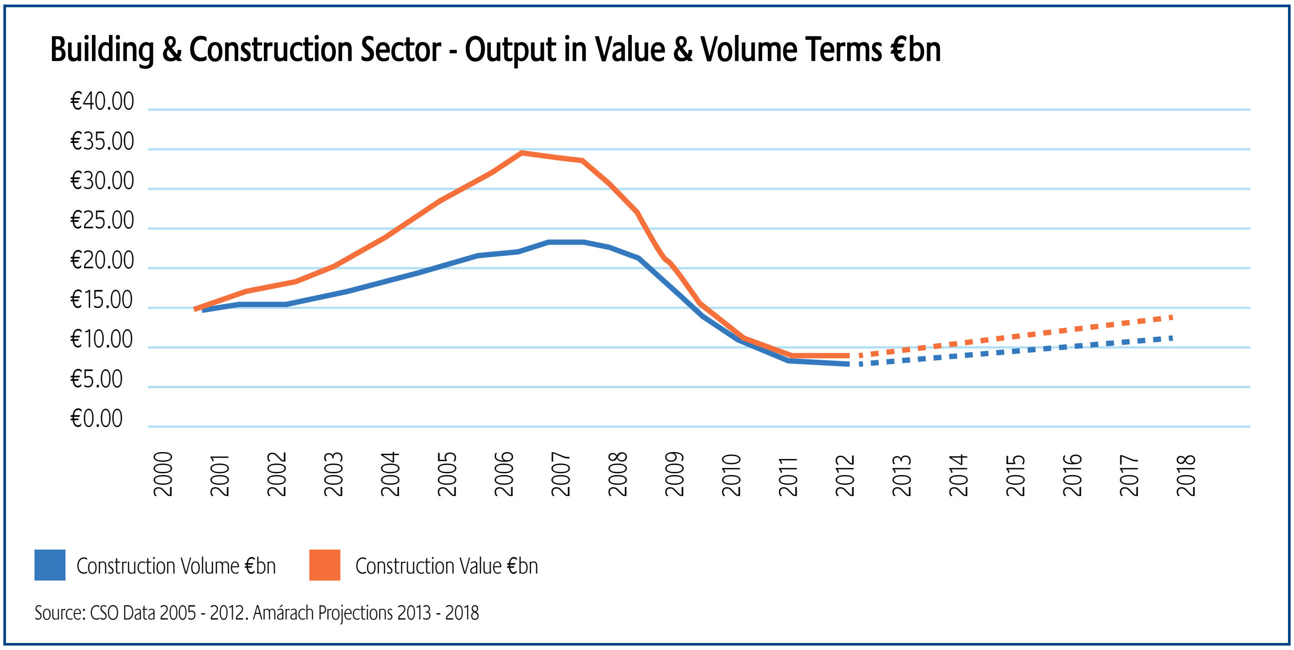
Table 1(a) Seasonally Adjusted Indices of Production in all Building and Construction1

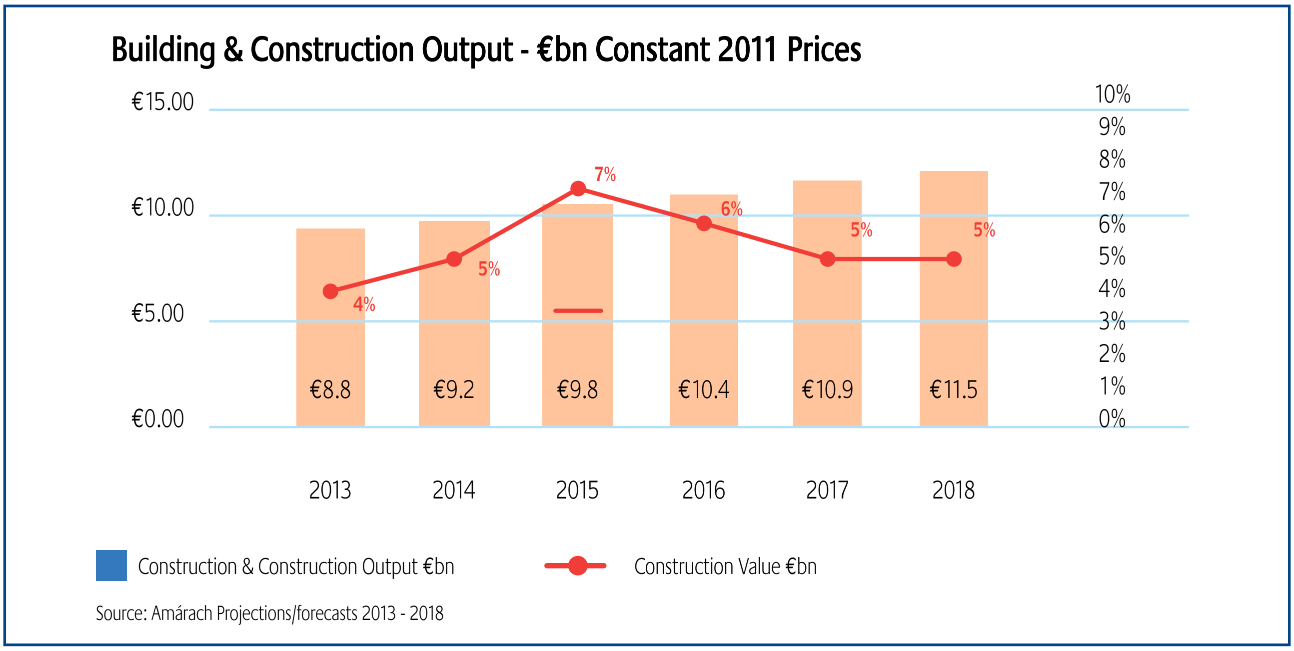
Base Year: 2010=100

Period		Value of Production Index	Value of Production % change on previous period	Value of Production "Annual % change"	Volume of Production Index	Volume of Production % change on previous period	Volume of Production "Annual % change"
2006		339.7		9.8	365.5		2.9
2007		308.8		-9.1	316.1		-13.5
2008		227.0		-26.5	225.5		-28.6
2009		141.5		-37.7	144.1		-36.1
2010		100.1		-29.2	100.3		-30.4
2011		81.1		-19.1	83.7		-16.5
2012		79.8		-1.6	79.9		-4.5
20132		89.4		12.1	89.4		11.9
2006	1st quarter	341.6	7.0	19.3	369.8	0.7	12.4
	2nd quarter	328.2	-3.9	5.7	358.4	-3.1	0.3
	3rd quarter	330.4	0.7	2.8	364.3	1.6	-0.7
	4th quarter	358.5	8.5	12.2	369.3	1.4	0.5
2007	1st quarter	323.6	-9.7	-5.3	345.4	-6.5	-6.6
	2nd quarter	324.3	0.2	-1.2	335.9	-2.8	-6.3
	3rd quarter	300.2	-7.4	-9.1	303.4	-9.7	-16.7
	4th quarter	287.0	-4.4	-19.9	279.5	-7.9	-24.3
2008	1st quarter	263.0	-8.4	-18.7	262.7	-6.0	-23.9
	2nd quarter	242.0	-8.0	-25.4	240.7	-8.4	-28.3
	3rd quarter	217.2	-10.2	-27.6	210.2	-12.7	-30.7
	4th quarter	185.9	-14.4	-35.2	188.5	-10.3	-32.6
2009	1st quarter	168.3	-9.5	-36.0	165.7	-12.1	-36.9
	2nd quarter	147.0	-12.7	-39.3	148.5	-10.4	-38.3
	3rd quarter	134.3	-8.6	-38.2	141.7	-4.6	-32.6
	4th quarter	116.3	-13.4	-37.4	120.6	-14.9	-36.0
2010	1st quarter	107.5	-7.6	-36.1	105.6	-12.4	-36.3
	2nd quarter	105.0	-2.3	-28.6	105.1	-0.5	-29.2
	3rd quarter	96.5	-8.1	-28.1	99.7	-5.1	-29.6
	4th quarter	91.5	-5.2	-21.3	90.6	-9.1	-24.9
2011	1st quarter	82.1	-10.3	-23.6	84.0	-7.3	-20.5
	2nd quarter	78.8	-4.0	-25.0	81.1	-3.5	-22.8
	3rd quarter	81.0	2.8	-16.1	83.4	2.8	-16.3
	4th quarter	82.3	1.6	-10.1	86.2	3.4	-4.9
2012	1st quarter	81.0	-1.6	-1.3	81.8	-5.1	-2.6
	2nd quarter	77.1	-4.8	-2.2	78.1	-4.5	-3.7
	3rd quarter	77.4	0.4	-4.4	77.8	-0.4	-6.7
	4th quarter	83.6	8.0	1.6	82.0	5.4	-4.9
2013	1st quarter	82.1	-1.8	1.4	85.6	4.4	4.6
	2nd quarter	88.9	8.3	15.3	89.3	4.3	14.3
	3rd quarter	92.9	4.5	20.0	91.4	2.4	17.5
	4th quarter2	93.7	0.9	12.1	91.4	0.0	11.5

1Based on Seasonal Patterns up to Quarter 4, 2013
2Provisional

The SCSI in their Construction Sector Outlook 2014 estimate that growth in construction output in 2013 was circa 4%. They prepared projections for the years 2014 – 2018 (in constant 2011 prices) on the basis of the historical, statistical link between building output and total investment as a percentage of GDP, which they note is highly correlated with all indicators of building output. Their forecasts are based on a modest increase in the share of total investment in GDP from about 11% to 15% and as a result expect to see a stable recovery in total building and construction output to 2018. They have added in an assumption for tender price inflation to their forecasts to 2018 (essentially assumed to be consumer price inflation +1% each year), to derive estimates for the value of the building and construction sector as shown below:





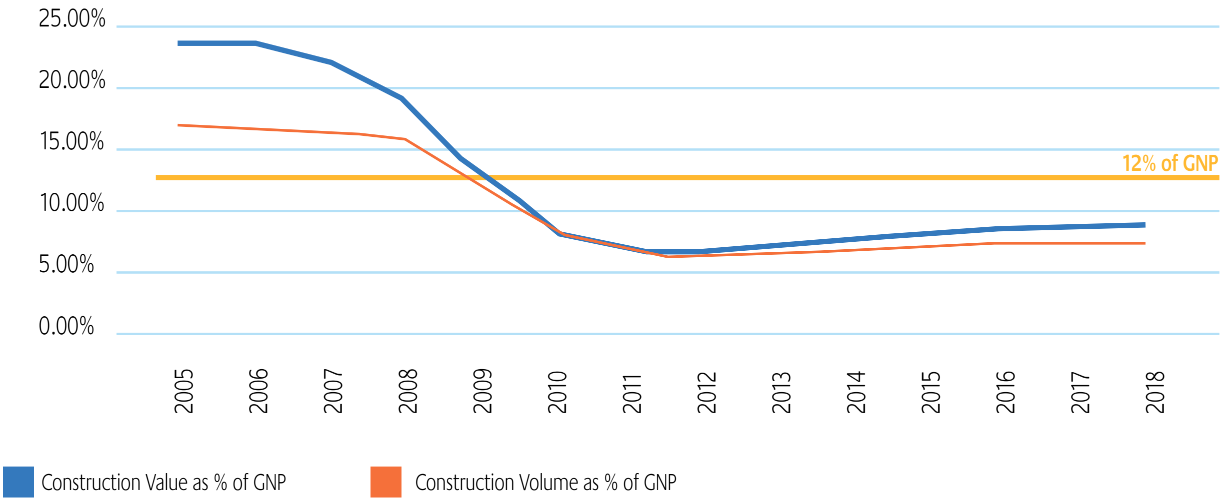
They add that these forecasts show the annual rate of growth in output will increase to 6% per annum in 2015 – 16, easing back to 5% thereafter. This reflects an anticipated "bounce" in residential building in particular, but with the supply situation and financing constraints they have kept the forecast to a modest level overall. Even after 30% cumulative growth (from 2013 to 2018) output will still be well below its 2009 level and just half its 2006 peak in real terms. Their analysis of the relationship between construction output and total investment has, they state, also highlighted some important influences on the different components of the overall construction sector. For example, residential construction is generally more sensitive to changing levels of investment versus non-residential construction. This presumably reflects the extent to which the latter is "locked in" for a period of years (depending on the scale of construction), whereas residential construction can be "turned on/off" quite quickly depending on near-term economic development etc.

They therefore expect residential construction to be the main area of growth from an improvement in outlook in 2015 and 2016, partly reflecting the “pent-up” demand for housing and also its capacity for faster recovery, depending on the rate at which the current barriers are being overcome. Infrastructural and other construction (e.g. roads) operates on a longer time scale again than non-residential construction in their analysis.

They also make the point that these forecasts are sensitive to Ireland’s wider economic fortunes. They used the IMF’s central scenario for Ireland to 2018 as their guide – which assumes steady but modest economic recovery. A weaker economy will inevitably mean weaker growth of building output, while a stronger economy should, other things being equal, see a much higher level of output.

They also looked at construction output expressed as a percentage of GNP. They note that historically, the impact of inflation on the value of building and construction sector has been significant. One such indication is construction output expressed as percentage of GNP. They previously referenced the share using constant, inflation – adjusted 2011 prices. In the chart below they compare construction’s share of GNP in constant and current prices. Using the latter, construction share peaked at 22% of GNP in 2006.

Construction Share of GNP - Volumn & Volumes Measures



Source: CSO Data 2005 - 2012. Amárach Projections 2013 - 2018

They state that looking ahead, even against this background of improving trends, the share of construction and GNP (a benchmark in the sector) is not expected to return to the longer run optimum level of 12% over the forecast period – let alone the heights experienced during the boom. The ratio of 12% is a European benchmark used to establish the optimum level of construction output relative to the needs of the wider economy. For an economy like Ireland, they say, most view a ratio of 12% to be appropriate. However even after consistent growth to 2018, the volume of construction output in their forecast will only reach 7.4% of projected GNP. To close the gap, output in 2018 alone would need to be 62%, or 7.1 billion higher in 2011 prices.

HOUSING

The housing sector is currently a hot topic with a rise in house prices evident and increase in homelessness. In 2013 a total of 8,301 homes were completed (8,488 in 2012) with just 1,360 in Dublin.

New Housing Completions by Type 2003 - 2013					
	House		Apartment		Total
2003	53,580	78.3%	14,839	21.7%	68,419
2004	60,448	79.0%	16,106	21.0%	76,554
2005	62,522	77.6%	18,035	22.4%	80,557
2006	73,073	78.6%	19,946	21.4%	93,019
2007	58,936	75.9%	18,691	24.1%	77,627
2008	38,513	75.0%	12,811	25.0%	51,324
2009	21,272	80.5%	5,148	19.5%	26,420
2010	12,514	85.7%	2,088	14.3%	14,602
2011	9,140	87.2%	1,340	12.8%	10,480
2012	7,495	88.3%	993	11.7%	8,488
2013	7,379	88.9%	922	11.1%	8,301

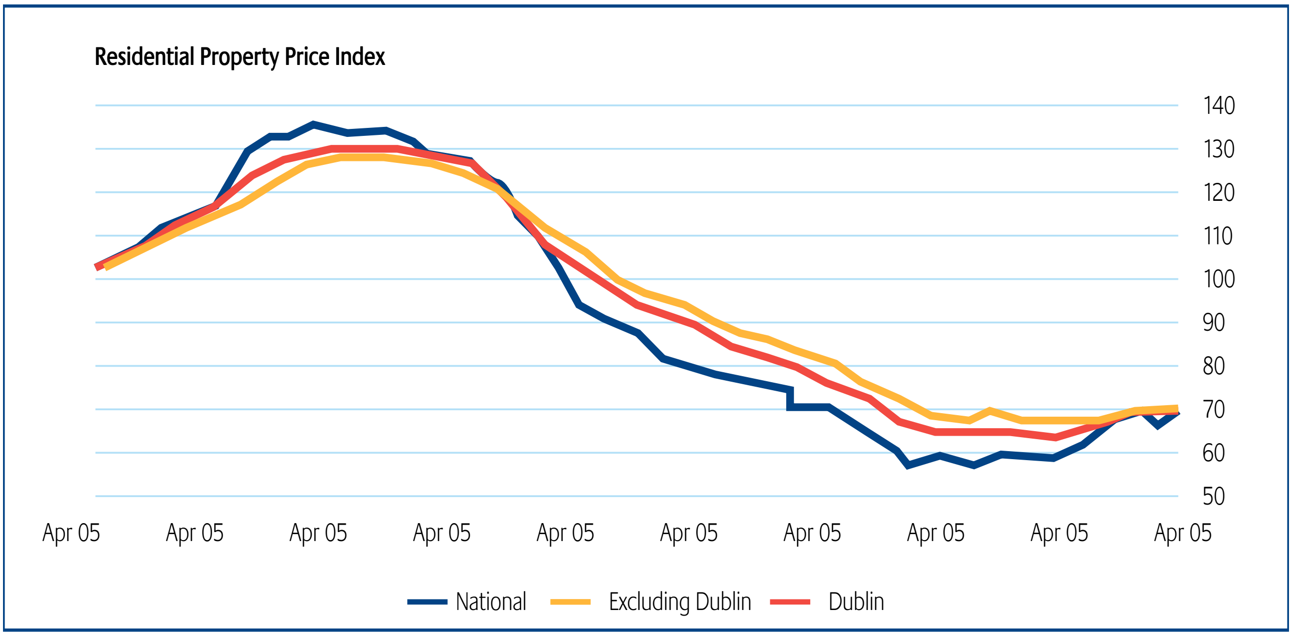
Source: Department of the Environment, Heritage & Local Government

In the recent Government publication ‘Construction 2020’ it is noted that there is an over-supply of homes in many parts of the country – including some houses that will never be occupied or sold – coupled with rising prices and rent levels in key urban areas especially in parts of Dublin, evidence of a growing and significant under-supply. The ESRI estimate that between 10,000 and 12,000 new houses are needed in the years between now and 2015, and that thereafter the need will double to between 20,000 and 25,000 homes. The SCSI state that the projected increase in residential output to about 10,000 in 2014 and 12,000 in 2015 is based on current levels of growth and actions that can be taken to reduce the barriers to the construction of new homes. They also noted that property prices in Dublin grew by 15.7% in 2013.

The Government publication cites a report from the Housing Agency on future housing supply requirements for the period 2014 to 2018 suggesting a total requirement of just under 80,000 dwellings across 272 urban settlements nationally, an average of 15,932 units per annum over the five years. It estimates that 47% of the total supply over the period is required across the Dublin region. They add that against this background just 4,042 residential units where commenced in 2012 (19% in Dublin) and just 4,708 in 2013 (21% in Dublin). Demographic changes, including an ageing population and a continued decline in the average household size, suggest that smaller units may be required in the future. Projections indicate that one and two-person households will account for approximately 55% of housing supply requirements in the years ahead.

They also add that in addition to questions of supply, there has been a reduction in mobility in the housing market. For a variety of reasons – including negative equity, a wish to protect tracker mortgages, uncertainty about future developments in price, and financing constraints, the number of second-hand houses being placed on the market has fallen significantly. Fewer households than would normally be the case are seeking to either trade up or to downsize, constraining mobility in the market. The result has been increased upward pressure on prices but the limited supply that is available, and knock-on consequences for rent where demand is outstripping supply.

The CSO's monthly Residential Property Price Index showed an increase of 17.7% across all property types in Dublin in the 12 months to April 2014 compared with only 1.3% in the rest of Ireland (i.e. excluding Dublin).



The PTRBs Rent Index showed an annual growth in rents in the capital of 7.6% last year.

With regard to mortgage financing, lending volumes have continued to decline. Banks are highlighting the lack of supply of houses in particular urban areas as a contributing factor, but the lack of drawdown of approved mortgage facilities. Cash transactions also predominate in the small number of sales taking place accounting for approximately half of the market in 2013. Mortgage figures for 2013 show that the number of loans drawn down fell on an annual basis. In 2012, 15,881 mortgages were issued to the value of 2.636 billion. In comparison, in 2013, some 14,985 mortgages were issued to the value of 2.495 billion.

There is also significant activity in the repairs, maintenance and improvement subsector. The budget 2014 renovations initiative incentivising people to get these works done – and done by registered builders to address the shadow economy issue – should also help in maintaining this output.

Overall, the private residential sector is expected to see an increase in output over the coming years.

PRIVATE NON-RESIDENTIAL

Commenting on the private non-residential sector, the SCSI note that investment in the Irish commercial property market grew to €2 billion in 2013 – three times higher than in 2012, largely driven by the office market due to increased Foreign Direct Investment (FDI) and interest from international investors. Growth in the commercial property market has been driven by the availability of investment funds, property prices at levels below the current building replacement value, the IDA's success in winning FDI and the general improvement in the economy. A lack of supply, however, is a key challenge to retaining competitiveness. Office rents have increased, the vacancy rates have fallen to 9% in central Dublin and the IDA has identified a large lack of modern offices circa 70,000 – 120,000 sq.ft. The rise in rents is bringing construction projects closer to viability. Rents for prime office space in Dublin city centre are rising to the point where speculative development may come back and if this trend continues it is likely to result in more construction in 2015.

Within the industrial subsector, activity is expected to continue to be strong in 2014 in the area of life sciences, big data and medical technologies. In addition, Irish exports across a range of subsectors have been performing strongly and this is expected to stimulate construction activity through expansion and improvement works.

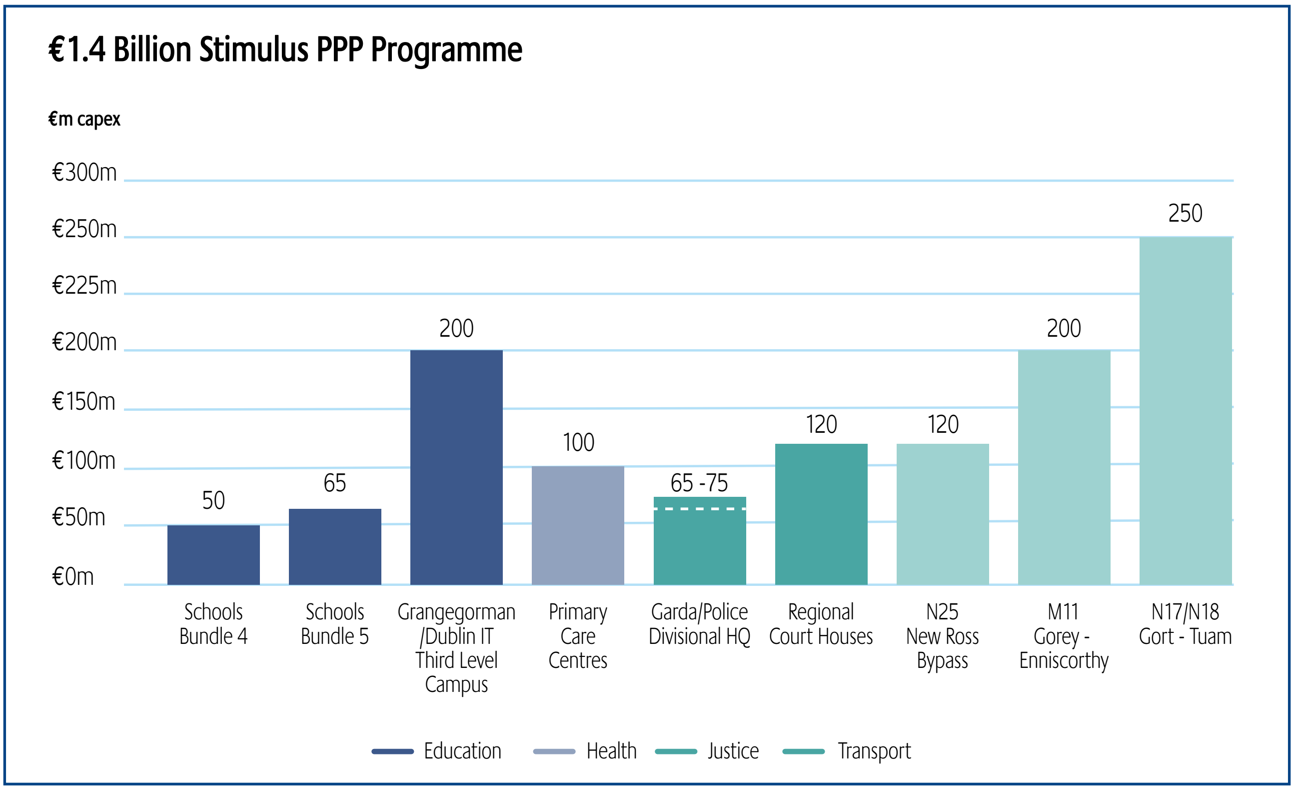
The retail subsector however is not performing well and activity has remained low. According to AECOM, there has been some activity where a number of national brands have rolled out limited branch refits, and, where units become vacant in the stronger urban centres, new entrant fit outs follow although this has mainly been in Dublin city centre. Activity in the majority of regional towns has been minimal, as property and lease transaction levels are low.

PUBLIC SECTOR

AECOM note that, whilst public sector capital expenditure has been in sharp decline since the downturn, this decline has been significantly less severe than in the private sector. As a result, it now represents just over 50% of the overall industry output.

While the public-private partnerships suffered from the cancellation of a number of projects in recent years, it is re-emerging and there are a number of significant projects coming on stream over the next few years. The selling of state assets such as the National Lottery is due to release €400 million to partly funded the National Children's Hospital. The government has also established Irish Water with a significant planned investment programme. The National Asset Management Agency is also investing €2 billion up to 2016 and making a further €2 billion of development finance available. The government has also approved €46 million for housing projects for homeless persons and people with special needs. €29 million is being allocated for the provision of units for the homeless, of which €10 million is earmarked for the Dublin city area. Circa €17 million is being provided for the delivery of units to accommodate persons with a disability and older persons in various locations around the country.

With respect to 2014 €1.44 billon is being allocated to the PPP Programme as follows:



The Capital Expenditure Estimates for 2014 shows €3.335 billon as set out in the table below:

Capital Expenditure Estimates

Department €m	2014	2015	2016	Total 2014 - 2016
Argiculture, Food & Marine	184	168	168	520
Communications, Energy & Natural Resources	80	79	77	236
Education & Skills	540	475	415	1,430
Enviroment, Community & Local Government	311	331	334	976
Health	397	390	390	1,177
OPW	100	100	100	300
Transport, Tourism & Sport	899	818	818	2,5353
Total (Including departments not mentioned above)	3,335	3,252	3,255	9,842

Source: Expenditure Report 2014, Table 5, page 24

CONSTRUCTION COSTS AND PRICES

As mentioned in previous reports 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.

The most recent annual data (CSO April 2014) for the wholesale prices of building and construction materials show prices increased by 1.1% on average since April 2013. The composite measure known as the capital goods price index, which captures the cost of materials and wages, shows Building & Construction (i.e materials and wages) increased 0.7% for the same period.

The most notable yearly changes in the wholesale price index for building and construction materials were:

- Sand and Gravel +42.0%
- Hardwood +14.5%
- Concrete Blocks +5.2%
- Insulating Materials +3.5%
- Glass +2.6%
- Electrical Fittings +2.4%
- Rough Timber +2.3%
- Plaster +1.9%
- Ready mixed Mortar & Concrete +1.6%
- Structural steel & Reinforcing Metal - 4.1%

The price of Energy products decreased by -12.7% in the year since April 2013 while Petroleum fuels decreased by -0.7%. In April 2014, the monthly price index for Energy products decreased by -8.7% while Petroleum fuels decreased by -0.5%.

AECOM in reviewing construction costs note that internationally there has been relative stability in material costs as international demand has been relatively muted, avoiding global shortages – particularly in materials. They also observed that in addition, exchange rates with our nearest trading partner, the UK, have seen the euro appreciate, making imports cheaper and energy costs have declined in the same period. They anticipate average construction cost increases of approximately 2% in 2014.

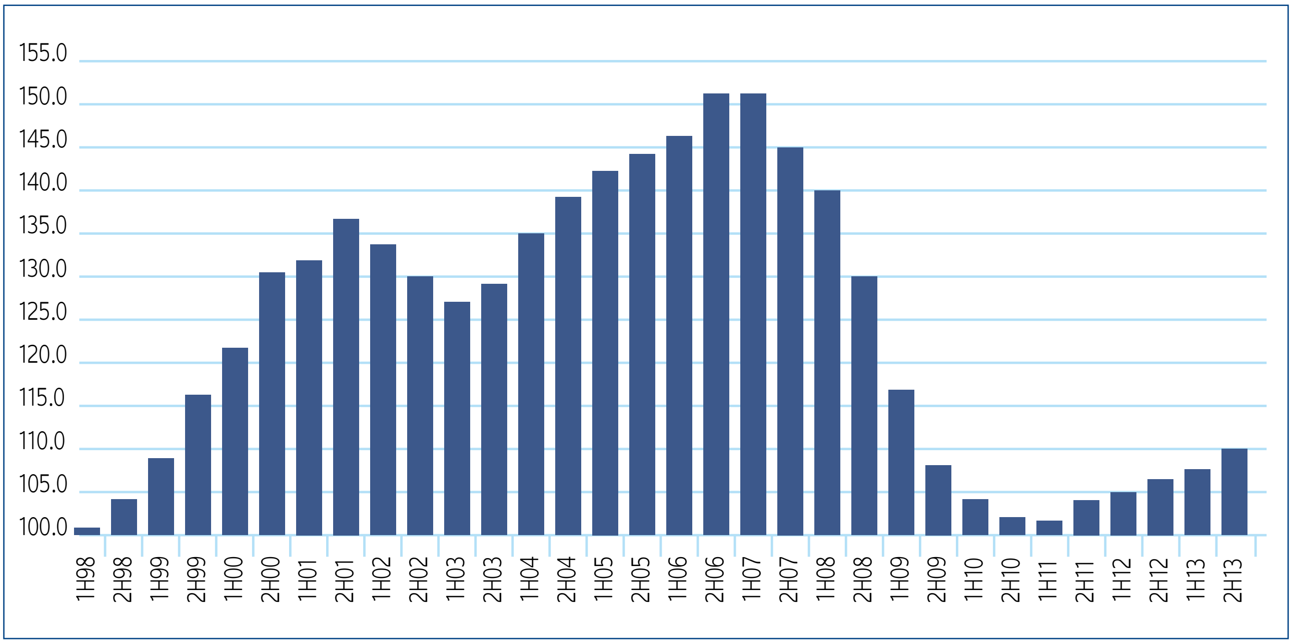
TENDER LEVELS

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 new-build 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 figures from the Society of Chartered Surveyors Ireland show that construction tender prices increased by 2.2% in the second half of 2013, up from 0.9% in the first half of the year. The annual increase for 2013 was 3.1%. Micheál O'Connor, President of the Society comments:

"The upward movement in prices reflects the current modest upturn in construction activity, albeit from a very low base. Tender prices have now risen by over 8% since they bottomed out at the end of 2010/start of 2011 and it is anticipated that this trend will continue, and possibly accelerate during 2014. Despite recent modest increases building prices remain very competitive and, at 28% below their peak in 2007, they are still some way below prices back in 2000 which means that planned Government expenditure on construction and infrastructure projects remain at very competitive prices."

The SCSI , say that there is an increasing awareness amongst contractors and subcontractors of the true cost of carrying out work and a reluctance to price below this, which ensures that projects are priced at viable levels.

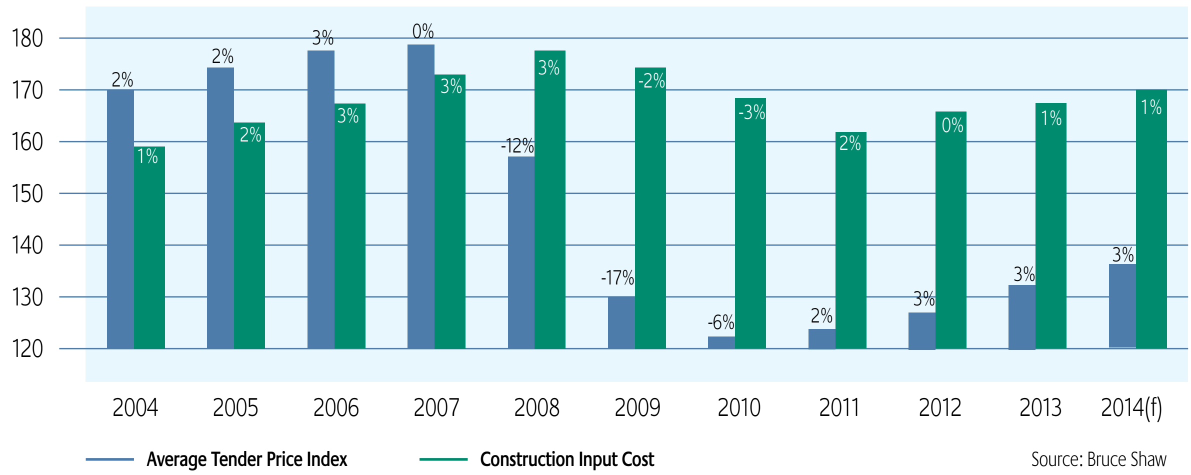


First Half 1998	100.0	Second Half 2003	129.3	First Half 2009	116.4
Second Half 1998	105.8	First Half 2004	135.3	Second Half 2009	107.7
First Half 1999	108.6	Second Half 2004	139.4	First Half 2010	103.7
Second Half 1999	116.1	First Half 2005	142.6	Second Half 2010	101.5
First Half 2000	121.7	Second Half 2005	144.7	First Half 2011	101.5
Second Half 2000	130.7	First Half 2006	146.7	Second Half 2011	103.5
First Half 2001	132.2	Second Half 2006	151.7	First Half 2012	104.5
Second Half 2001	136.9	First Half 2007	152.0	Second Half 2012	106.4
First Half 2002	133.9	Second Half 2007	145.2	First Half 2013	107.3
Second Half 2002	130.1	First Half 2008	140.7	Second Half 2013	109.7
First Half 2003	127.2	Second Half 2008	130.0		

As is evident from the index it has fallen remarkably in the past few years and this suggests that construction price inflation is a very weak influence on the sector and will likely remain so. The SCSI in their Construction Sector Outlook 2014, state with construction price inflation, currently at low single digit levels – similar to the general trade in consumer prices – then it is unlikely there will be a major jump in the index over the forecast period, against a background of still modest inflationary pressures.

Bruce Shaw in their 2014 Ireland Handbook show their own index of tender and construction input cost as follows:

Bruce Shaw Tender & Cost Indices



They comment that, despite some modest increases in tender prices for construction projects in recent years the graph above illustrates that there remains a significant divergence between these prices and the input cost of labour and materials. Bruce Shaw's research shows that during 2013 tender prices rose on average by 3% while, despite some variances on individual material costs, construction input costs rose on average by only 1%. They also note that between the peak of 2007 and the end of 2013 tender prices have fallen by 26% but input costs have only fallen 3%. They expect that this will narrow again in 2014 but only modestly with prices continuing to rise on average by 3% to 4% and input costs by a further 1%. These represent average annual changes but they reflect the reality that pricing levels remain very competitive and the phenomenon of below cost tendering is still present, albeit there is more reality coming into the marketplace. They also note that unfortunately however, this realism has come too late for many construction companies and the rate of company failures in the construction sector is still the highest of all sectors of the Irish economy. They state that these trends give rise to some concerns. And it is important that projects of more than 12 months duration allow a provision for future tender price inflation, including the possibility of future wage increases, particularly in the electrical trades, following the Supreme Court declaring the Registered Employment Agreements unconstitutional. They recommended clients and design teams should also look carefully at the financial strength of contractors and subcontractors and their ability to obtain adequate performance guarantee bonds before entering into construction contracts.

AECOM have also noted this 3% increase however note this has not been uniform across the industry with volatility between regions and sectors and even amongst trades. They further note that there appears to be a particular trend of reduced competition for public sector tenders. Construction firms are now more selective in allocating their significantly reduced resources, strategically pricing lower on projects that they wish to target. They also add that as a consequence public sector tenders may see tender price increases above this level, particularly where there is a high level of mechanical and electrical services, which appear to be more acutely affected. They note that in contrast, strong competition continues for commercial projects in the Dublin region, with medium-sized regional contractors seeking to find private work where there are greater opportunities to make a profit. They conclude that they expected tender price increases in 2014 to average +3%, however note that this is an average figure and would anticipate that certain sectors, including the public sector and fit-out sector, and certain trades, such as mechanical and electrical services, are likely to see higher levels of increase if demand levels rise.

BUILDING CONTROL (AMENDMENT) REGULATIONS 2014.

This came into effect on 1 March 2014, and contains requirements to include:

- drawings to be submitted to the local building control authority.
- design to be undertaken and certified by competent professionals prior to works commencing.
- owners to formally assign a competent builder to undertake and certify works.
- owners to formally assign a registered professional as an Assigned Certifier
- statutory certificate of compliance from designers, builders and assigned certifier's to confirm compliance with the requirements of the building regulations.

The Surveyors Journal (Spring 2014) comments that the new system implements a provision in the parent Act of 1990, and now introduces a system of mandatory certificates of compliance at various stages in a construction process. The building owner will be required to appoint competent designers, a competent builder, and a new entity, known as the assigned certifier. There will be mandatory: certificate of compliance (Design); lodgement with the Building Control Authority of plans, calculations, specifications and particulars to outline compliance; an inspection plan; and, critically, a Certificate of Compliance on Completion signed by the builder and the assigned certifier. These are statutory forms for these new certificates and therefore, there is a standard wording, which cannot be deviated from. They add that the assigned certifier and the builder are central to the process and will coordinate ancillary certificates by all relevant parties. While the builder is still responsible for supervision of the works, the assigned certifier is responsible for implementation of an inspection plan. This inspection plan will outline the nature, frequency, and intensity of inspections, coordinating input from other project providers and ensuring that inspections and tests are carried out. There is interreliance by all involved in the project, using a formal system of ancillary certificates.

The provisions will apply to:

- new dwellings (houses and apartments),
- extensions to dwellings over 40 m , and
- works where a fire safety certificate is required.

Persons signing the Certificate of Compliance (Design) for submission with the commencement notice, and those appointed and signing off as assigned certifier's, must be a person named on a register maintained pursuant to part three or five of the building control act 2007 (i.e., registered architects or registered building surveyors, Institution Civil Engineers Ireland (Chartered Amendment) Act 1969. At the completion of the building project, the building works cannot be opened, used or occupied until the Certificate of Compliance on Completion is validated by the Building Control Authority, and placed on a register.

There is of course a cost implication involved with this new act for the building owner. Their design team members will require additional resources at inspection and sign off of their elements both at design and construction stage. The assigned certifier and inspection regime will also involve further expenditure on the part of the building owner. The builder will also be required to resource his own element in relation to supervision, provision of tests, certification, cooperation with inspection notification framework and provision of ancillary certification acceptable to the assigned certifier. No doubt these will be costs that the contractors will pass on to the building owner.

Project durations will also likely extend as there will be a need for preparation of documentation for submission of a commencement notice and submission at the completion certificate stage and an allowance made for Building Control Authority validation. There will likely also be higher professional indemnity insurance premium arising from the additional responsibilities involved.

It is our view that the cost implications are likely to be proportionately higher on a smaller project as the requirements still have to be adhered to. It could be argued that the responsibilities of the design team have not greatly increased as regards their oversight of the project, however, there is no doubt that the level of bureaucracy and administration has increased. Where a domestic dwelling has been completely destroyed by a fire and has to be rebuilt, it is our view that this will be considered as a "new" dwelling and the regulations will apply. There will no doubt be grey areas arising over time where the level of damage to property is such that it is not a physical write off but nonetheless, warranting significant reconstruction. We would expect the level of fees being claimed to subsequently increase and it is difficult to forecast at this early stage as to what level of increase will arise. We have no doubt that Public Loss Assessors will endeavour to add 2 - 3% onto the fees where in reality it may be between 0.5% to 1%. On smaller projects it may arise that this will be a time basis rather than a percentage which could result in a higher fee value reflecting the actual associated costs.

These changes come on the back of recent changes in building regulations associated with higher requirements for insulation, provision of the likes of solar panels, rainwater harvesting/percolation areas, etc. Again, these issues mainly arise on claims where a total rebuild is required

2. BUILDING CLAIMS INFLATION

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

There was a 1.1% increase in material costs year-on-year April 2013 to April 2014. The table below shows a breakdown extracting the materials most commonly encountered in domestic claims along with the monthly changes for February. March and April 2014:

Wholesale Price Index (ex Vat) for Building & Construction Materials					
	April 2014 % Annual Change		Change Monthly %		
Materials	Increase	Decrease	Feb	Mar	Apr
Sand & Gravel	40.4%		14.5%	2.7%	6.5%
Paints,Oil Varnishes		-0.6%	0.0%	0.0%	0.0%
Concrete Blockwork	5.2%		0.9%	0.7%	0.0%
Glass	2.6%		2.6%	0.0%	0.0%
Ready mixed Mortar & Concrete	1.6%		-0.1%	0.5%	0.0%
Hardwood	14.5%		0.0%	14.5%	0.0%
Copper Pipes & Fittings		-2.7%	-0.3%	-0.2%	-0.7%
Structural Steel & Reinforcing Metal		-4.1%	-0.8%	-0.2%	0.6%
Insulating Materials	3.5%		0.0%	0.0%	0.0%
Electrical Fittings	1.0%		0.6%	0.0%	0.0%
Rough Timber	2.3%		0.0%	1.3%	0.4%
Plaster	1.9%		1.0%	0.2%	0.3%
PVC Pipes & Fittings		-1.7%	-0.2%	-0.1%	-0.3%

Factors to be borne in mind in reviewing material cost changes include the economic uncertainty, manufacturers varying production runs due to the changing demand together with the fact that on insurance repair work contractors are unlikely to be in a position to avail of bulk discounts. Nonetheless, there is still some upward pressure on material costs and therefore with respect to the remainder of 2014 and 2015 we would predict that there could be increases as follows:

- 2014: +1.00%
- 2015: +1.00%

Labour

AECOM note the Supreme Court ruling in May 2013 declaring the unconstitutionality of the Registered Employment Agreement has created a level of uncertainty as to future trends in labour costs. They comment that employment contracts existing prior to the Supreme Court ruling remain on the same terms, however, and so the labour cost base remains broadly the sane. They add that it will be important for the industry, however, that the uncertainty surrounding the continuation or not of the REAs, in some format or other, is resolved in the near future. .If the predicated growth comes to pass, albeit limited, pressure will likely mount on the wage front as the pool of available skilled and general operatives (and contracting firms) has shrunk due to unemployment in the sector and subsequent emigration. If matters improve some emigrants will return, however there will also be a time lag in training new entrants to the workforce.

With regard to domestic claims we predict that there will be pressure on labour costs and therefore for the remainder of 2014 and into 2015 we forecast labour cost increases as shown below:

- 2014: +0.50%
- 2015: +1.25%

3. RETAIL SALES & CONSUMER PRICE INDICES

RETAIL SALES INDEX

The most up to date RSI Statistics are for April 2014, which illustrate annual percentage increase of 6.8% in volume and 4.4% in value. The month itself shows a reduction of -0.9% in volume and -0.8% in value.

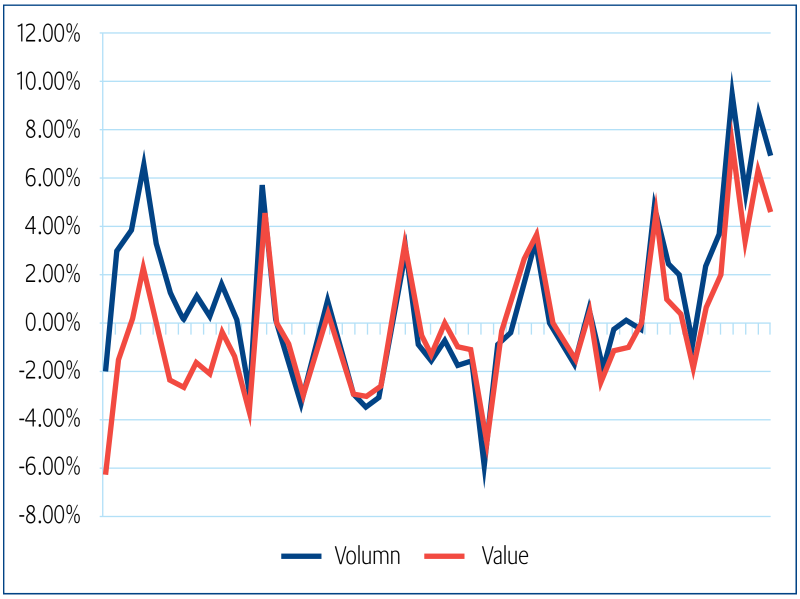
The key annual, to April 2014, percentage movements in both volume and price by business category are:

	Volume	Value
Motor Trade	15.8%	13.6%
Department Stores	8.9%	5.1%
Food, Beverage & Tobacco	-0.7%	-1.1%
Fuel	5.0%	0.9%
Pharmaceutical	-3.7%	-5.3%
Clothing, Footwear & Household	12.6%	9.1%
Furniture & Lighting	29.9%	20.8%
Hardware, Paint & Glass	10.7%	9.4%
Electrical Goods	5.8%	-0.3%
Books & Newspapers	-6.4%	-4.7%

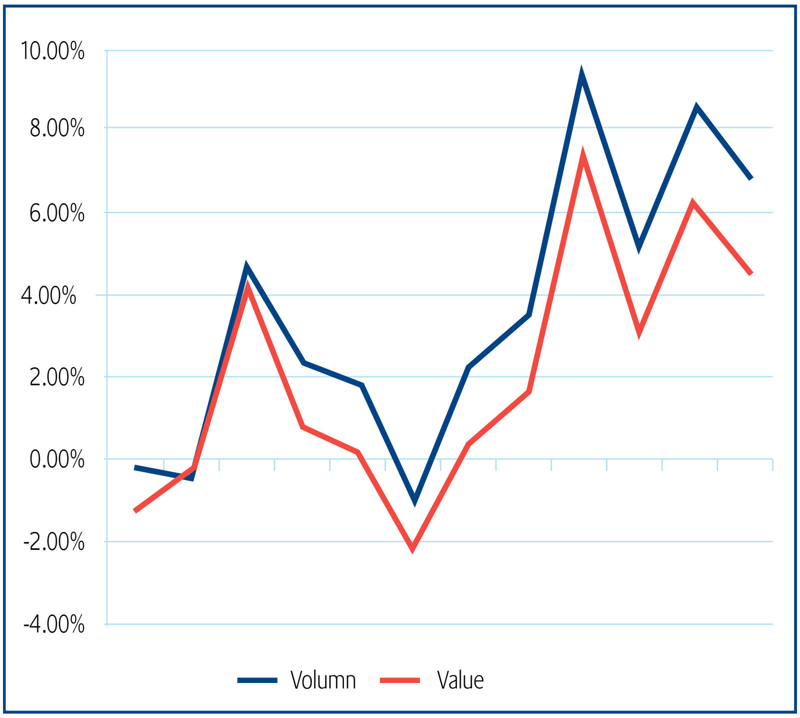
The above table, coupled with the data and graphs on the following pages, illustrate that certain categories, including motor trade, clothing, footware & household, furniture & lighting and hardware have had strong growth in both volume and value.

HISTORIC RETAIL SALES INDICES

	Month	Volume	Value
2010	January	-2.30%	-6.60%
	February	2.80%	-1.50%
	March	3.70%	-0.30%
	April	6.50%	2.10%
	May	3.00%	-0.60%
	June	1.00%	-2.70%
	July	-0.10%	-3.00%
	August	0.90%	-1.90%
	September	0.00%	-2.40%
	October	1.40%	-0.60%
	November	0.20%	-1.60%
	December	-3.20%	-4.00%
2011	January	5.60%	4.50%
	February	0.00%	-0.20%
	March	-1.40%	-1.10%
	April	-3.70%	-3.20%
	May	-1.70%	-1.20%
	June	0.70%	0.20%
	July	-1.50%	-0.90%
	August	-3.30%	-3.20%
	September	-3.80%	-3.40%
	October	-3.50%	-3.00%
	November	-1.10%	-0.50%
	December	3.10%	3.30%
2012	January	-1.20%	-0.60%
	February	-1.80%	-1.70%
	March	-0.90%	-0.30%
	April	-2.00%	-1.30%
	May	-1.80%	-1.30%
	June	-5.90%	-5.20%
	July	-1.20%	-1.20%
	August	-0.60%	0.40%
	September	1.50%	2.30%
	October	3.10%	3.50%
	November	-0.40%	-0.10%
	December	-1.10%	-0.90%
2013	January	-1.90%	-1.80%
	February	0.40%	0.30%
	March	-2.20%	-2.80%
	April	-0.50%	-1.40%
	May	-0.20%	-1.30%
	June	-0.50%	-0.30%
	July	4.60%	4.30%
	August	2.30%	0.80%
	September	1.80%	0.20%
	October	-1.10%	-2.20%
	November	2.20%	0.50%
	December	3.50%	1.60%
2014	January	9.40%	7.40%
	February	5.10%	3.00%
	March	8.60%	6.20%
	April	6.80%	4.40%



January 2010 – April 2014

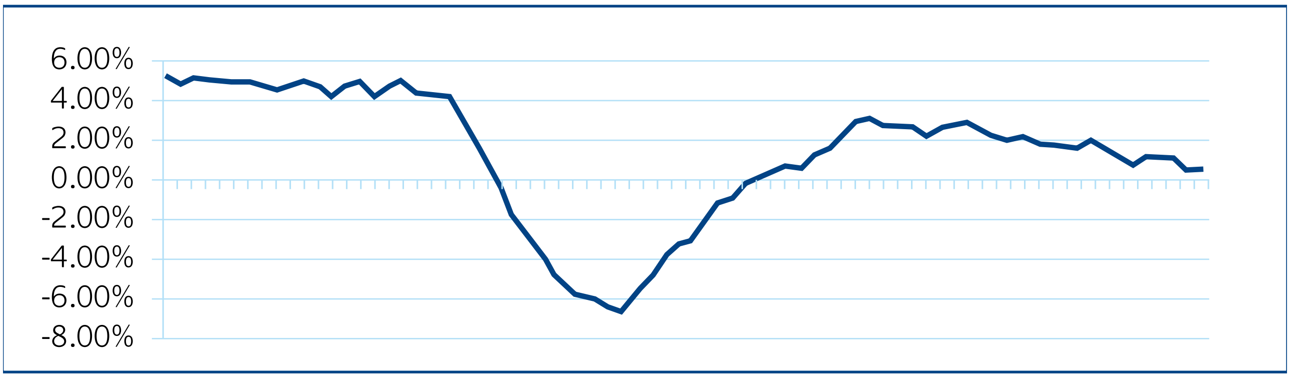


May 2013 – April 2014

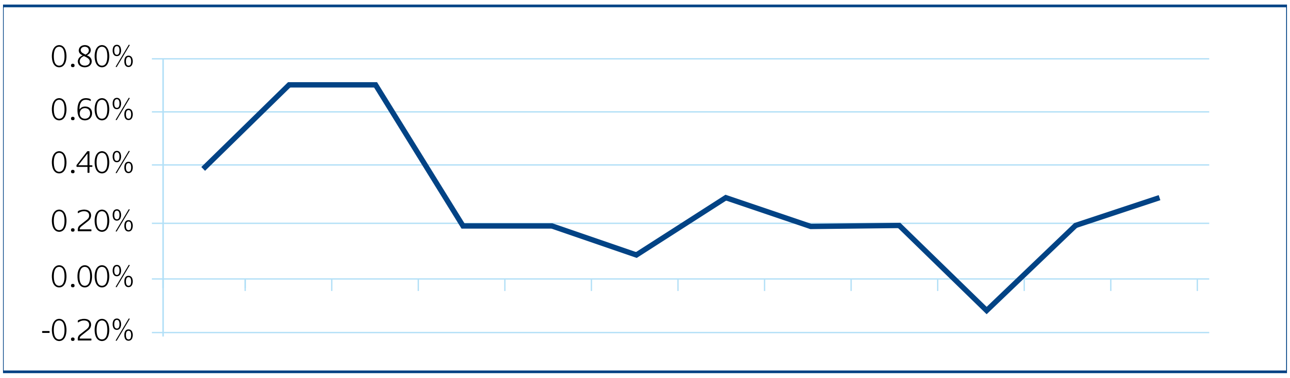
CONSUMER PRICE INDEX

Historic CPI percentage annual change statistics from January 2007 - April 2014, in both tabular and graphical format, are as follows:

	2014	2013	2012	2011	2010	2009	2008	2007
January	0.20%	1.20%	2.20%	1.70%	-3.90%	-0.10%	4.30%	5.20%
February	-0.10%	1.10%	2.10%	2.20%	-3.20%	-1.70%	4.80%	4.80%
March	0.20%	0.50%	2.20%	3.00%	-3.10%	-2.60%	5.00%	5.10%
April	0.30%	0.50%	1.90%	3.20%	-2.10%	-3.50%	4.30%	5.10%
May	-	0.40%	1.80%	2.70%	-1.10%	-4.70%	4.70%	5.00%
June	-	0.70%	1.70%	2.70%	-0.90%	-5.40%	5.00%	4.90%
July	-	0.70%	1.60%	2.70%	-0.10%	-5.90%	4.40%	5.00%
August	-	0.20%	2.00%	2.20%	0.20%	-5.90%	4.30%	4.80%
September	-	0.20%	1.60%	2.60%	0.50%	-6.50%	4.30%	4.60%
October	-	0.10%	1.20%	2.80%	0.70%	-6.60%	4.00%	4.80%
November	-	0.30%	0.80%	2.90%	0.60%	-5.70%	2.50%	5.00%
December	-	0.20%	1.20%	2.50%	1.30%	-5.00%	1.10%	4.70%



January 2007 – April 2014



May 2013 – April 2014

The annual CPI percentage change to April 2014 was 0.30%, and change for the month of April itself was 0.10%.

The annual rate of inflation for services was 2.40%, and for goods -2.40%.

The most notable sector changes during the year were:

Education	4.5%
Communications	**-3.3%**
Alcoholic Beverages and Tobacco	3.7%
Miscellaneous Goods & Services	**3.2%**
Clothing & Footwear	-3.7%
Furniture & Household Goods	**-3.1%**

Since January 2013, there has been monthly CPI inflation ranging between a low of -0.10% in February 2014 to a peak of 1.20% in January 2013.

4. CONTENTS CLAIMS DEFLATION

As detailed under Section 3, Retail Sales and Consumer Price Indices, CPI, inflation for the two month period, March – April 2014, has been static on a monthly basis at circa 0.25%.

The main drivers of this inflation are components that do not directly affect the insurance spend on household contents as follows:

Education	4.5%
Alcoholic Beverages and Tobacco	3.7%
Miscellaneous Goods & Services	3.2%

A more detailed analysis of these statistics, demonstrates actual deflation in the core areas of the household contents insurance spend as follows:

Furniture & Household Goods	-3.1%
Clothing & Footwear	-3.7%

Based on the above trends, we would estimate Household Content Claims deflation as follows:

- 2014: -3.00%
- 2015: -3.50%

5. FORECAST CLAIMS DEFLATION / INFLATION 2014 – 2015

BUILDINGS

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

	2014	2015
Materials (30%)	1.0%	1.00%
Labour(70%)	0.5%	1.25%

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

	2014	2015
Building Inflation Percentage (Weighted)	0.65%	1.18%

CONTENTS

We expect the cost of household content claims to marginally reduce in the next 18 months as follows:

	2014	2015
Contents Claims Deflation	-3.00%	-3.50%

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:

	2014	2015
Materials	1.00%	1.00%
Labour	0.50%	1.25%
Buildings (Weighted: Materials 30:70 Labour)	**0.65%**	**1.18%**
Contents	**-3.00%**	**-3.50%**
Forecast Deflation (Weighted: Buildings 3:1 Contents)	**-0.26%**	**+0.01%**

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