

## Third Party Working Party

### GIRO Workshop A1 – David Brown, John Berry & Neil Wilson



• 12 October 2011

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# Disclaimer

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This handout supports the research effort of the Actuarial Profession's working party and is not written advice directed at the particular facts and circumstances of any given situation and/or data.

The materials contained in this presentation pack and any oral representation of it by the working party are explicitly outside the scope of the TAS.

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# Acknowledgements

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## **Working Party:**

David Brown (Chair)  
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The Cooperative  
Insurance  
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LV  
NFU  
Provident  
RBS Insurance  
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Zurich

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Tom McDonald

RBSI: Oliver  
Wallace,  
Nicola Greene,  
Matt Grist

Aviva: Philip Paston,  
James Ashdown

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# Industry Results from Third Party Working Party

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- Second Industry Study with much wider scope than First Study
- A significant number of insurers contributed a vast array of information on third party claims (injury and property damage) that made this happen
- In total, over 85% of FSA regulated companies (measured by 2009 premium volumes) contributed, and so the results form as complete a study as probably is possible
- Analysis of the above data carried out by Towers Watson on an anonymised basis

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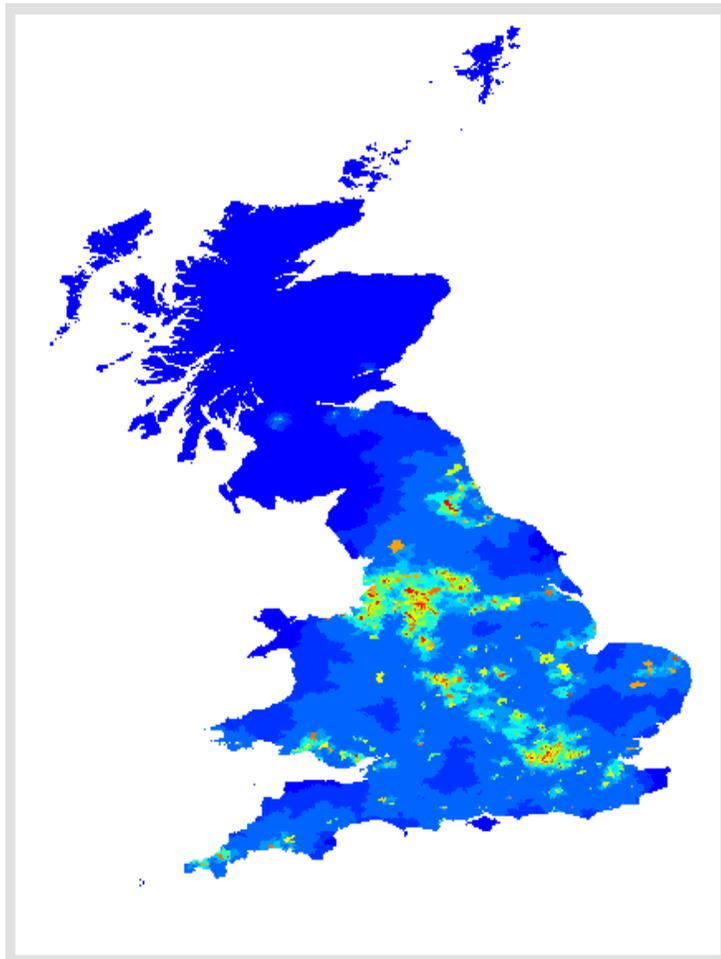
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  - Adequacy of Case Estimates

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## CMCs: growth continues; and turnover is up 50%

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Turnover to Nov 2010 increased by 50% to £377m.

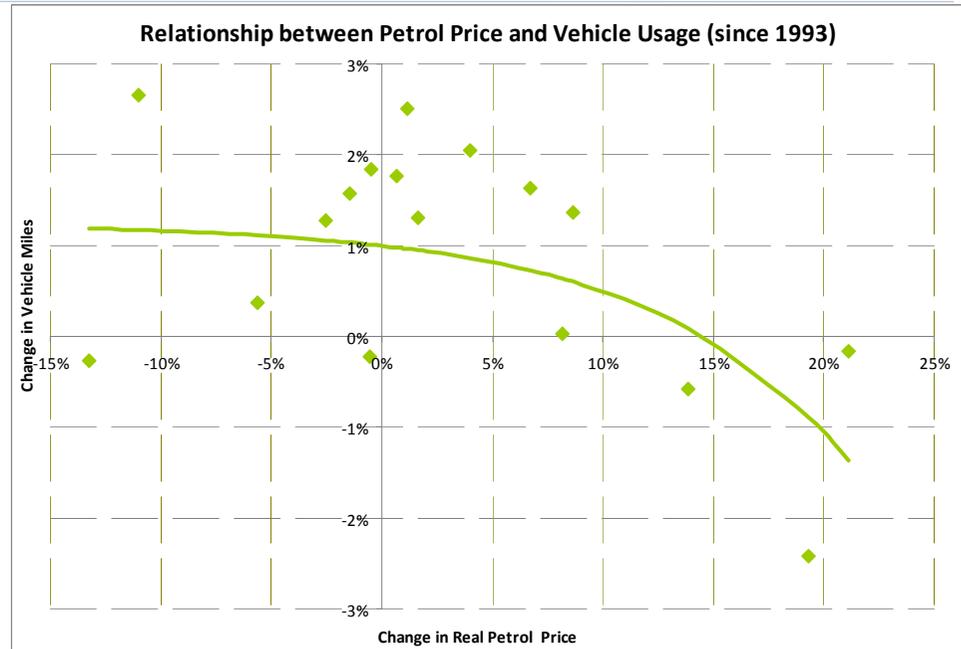
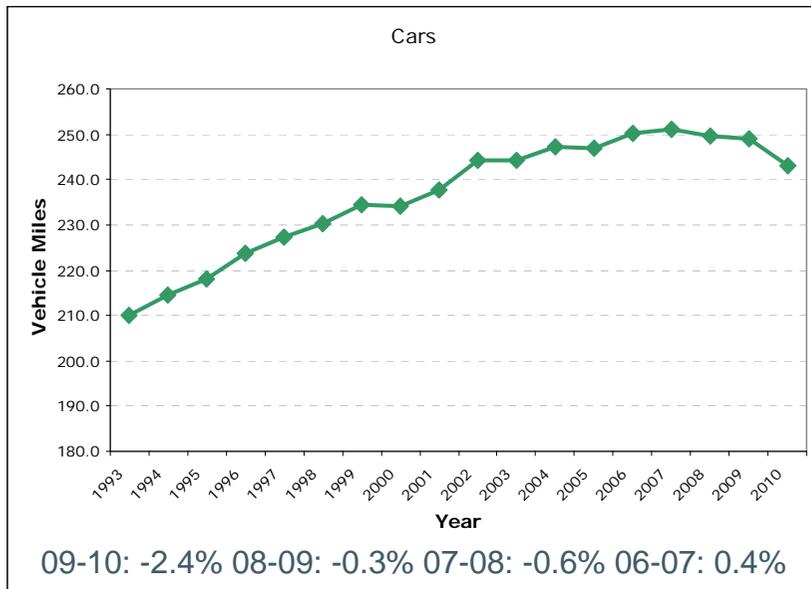
Information on counts of authorised CMCs has challenges in terms of allowing for cancelling authorisation - so there are caveats on the following findings given that we have not been able to obtain regional turnover data.

But it would appear that:

- The greatest increases have been in the areas that already had the greatest concentrations of CMCs – specifically Manchester and Liverpool.
- But some other areas have shown significant percentage increases but from a much lower base.

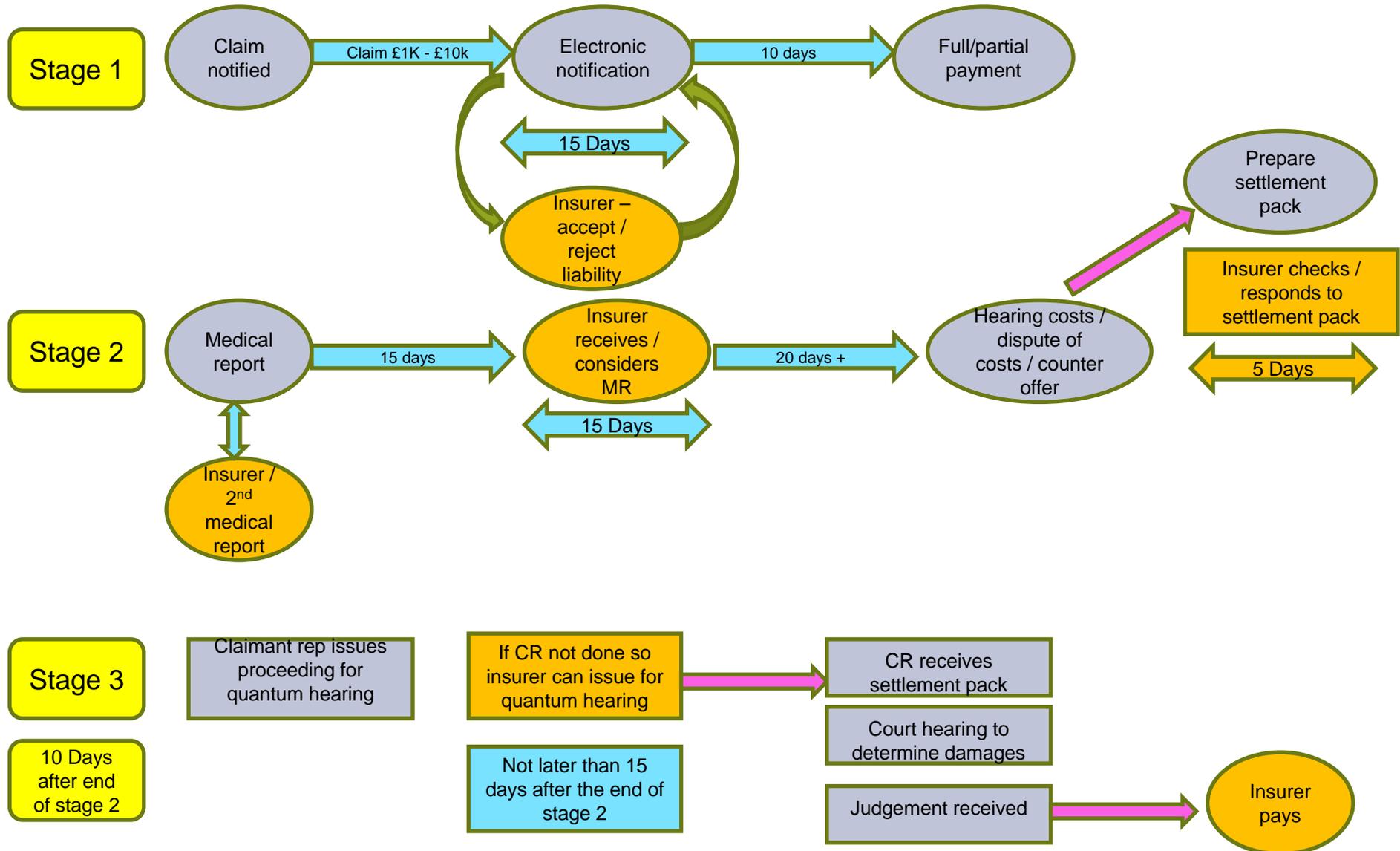
# Road Usage Data

- There is a broad correlation between road usage and changes in petrol prices – with greater sensitivity to increases than decreases



- Road usage has been dropping since 2007
- With a more pronounced drop in 2010 of 2.4%

# The New MOJ Process (Claims after 30/04/2010)



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# Private Car Comp: Fewer accidents but each at greater cost of damage

with more bodily injury, with less inflation per case at the early stages of the MOJ reforms

## Damage

- 2010 road usage down and 6% **fewer accidents**
- But **high average cost inflation** continues at 7%
- **Insurers are settling more quickly**

## Injury

- **Increasing proportions of accidents involve TPI** with inflation in TPI/TPD freq of circa 10%
- But with fewer accidents in 2010, **TPI frequency increases are marginal**
- **MOJ** was introduced in 2010 and experience in the 2010 accident year has **marked a change with the past;** **payments have sped up materially as have settlement rates.**
- Whilst there is evidence that **case estimate weakness is not as marked as previously** for 2010 accidents and that to date **average cost inflation is marginal** and down from the previous very high levels but
  - This has been **flattered by lower numbers of accidents** driven by potentially short term suppression of road usage
  - The early stages of the MOJ process give us **no knowledge of how the new process will develop at Stage III.**
- Case estimate strength remains a significant issue for 2009 & prior with commensurate **risk of under-reserving** if undue reliance is place on incurred claims. For overall reserves to be adequate IBNR+IBNeR will need to be a greater proportion of reserves than previously

There are high levels on uncertainty on the ultimate costs of 2010 bodily injury. Positive signs from the early stages of MOJ should be read in the context of increasing numbers of CMCs, claimants per claims and doubt as to the costs of the MOJ process over its full life cycle → risk of underpricing

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## Private Car Non-Comp: Declining volumes. All costs higher than Comp as is TPI severity, but other inflation rates are lower than Comp

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- Non-Comp business volumes continue to decline
- with more adverse claims experience than Comp
  - Higher TPD, TPI frequencies
  - TPI/TPD above 30% cf 25% for Comp
  - Higher TPD severities
  - Higher TPI severity inflation
- But with other inflationary trends not as marked as Comp
- Whereas Comp shows evidence of relative strengthening of case estimates in 2010 accident year, there is evidence of relative weakening for Non-Comp in 2010 with average settled inflation at 16% (average incurred inflation at 4%) with only marginal speeding up of settlements (cf strong speeding up for Comp)

**Evidence of weak case estimates → risk of under-reserving**  
if undue reliance is place on incurred claims. For overall reserves to be adequate IBNR+IBNeR will need to be a greater proportion of reserves than previously

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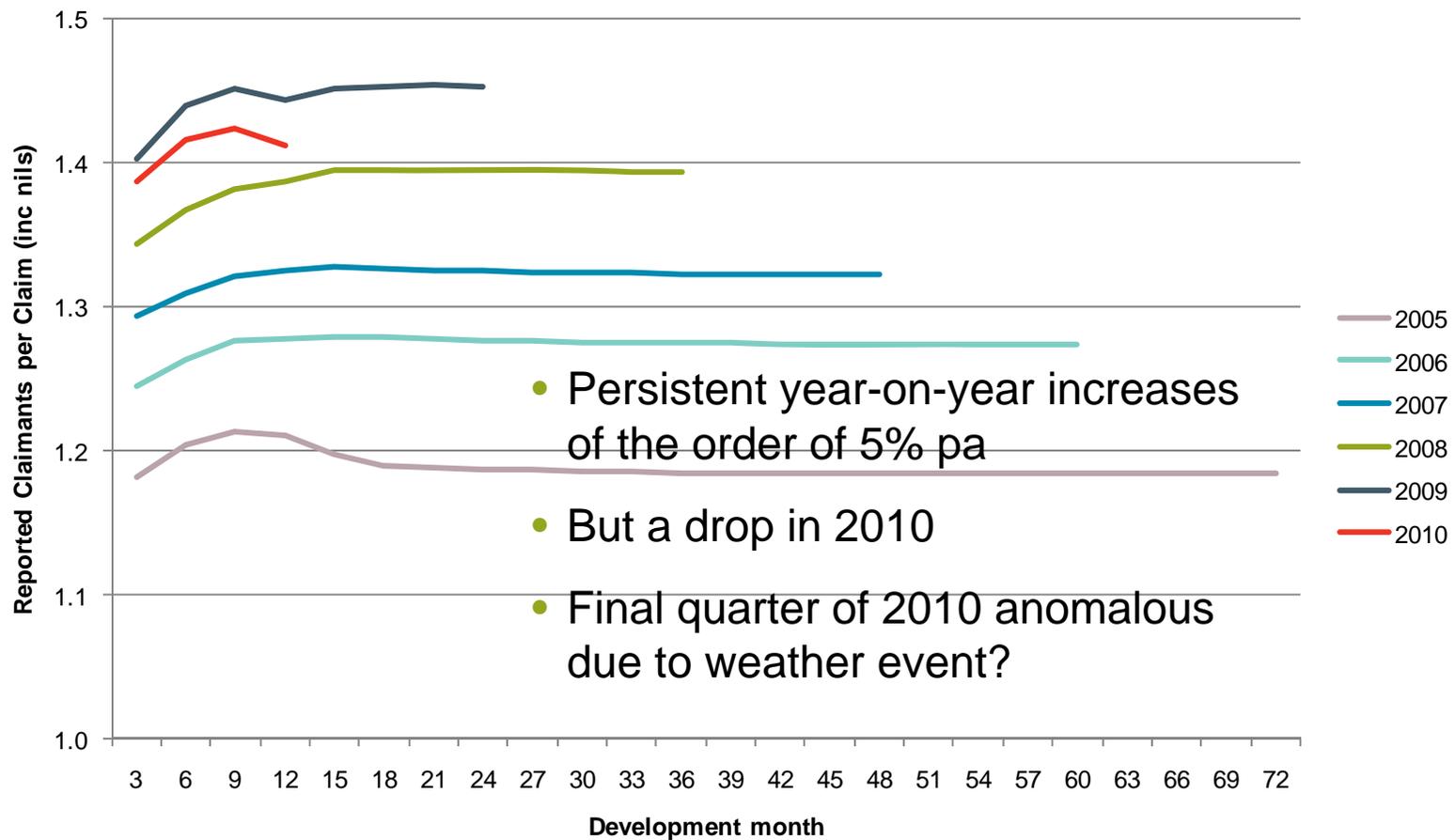
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# Private Car Comprehensive

## Reported claimants per claim

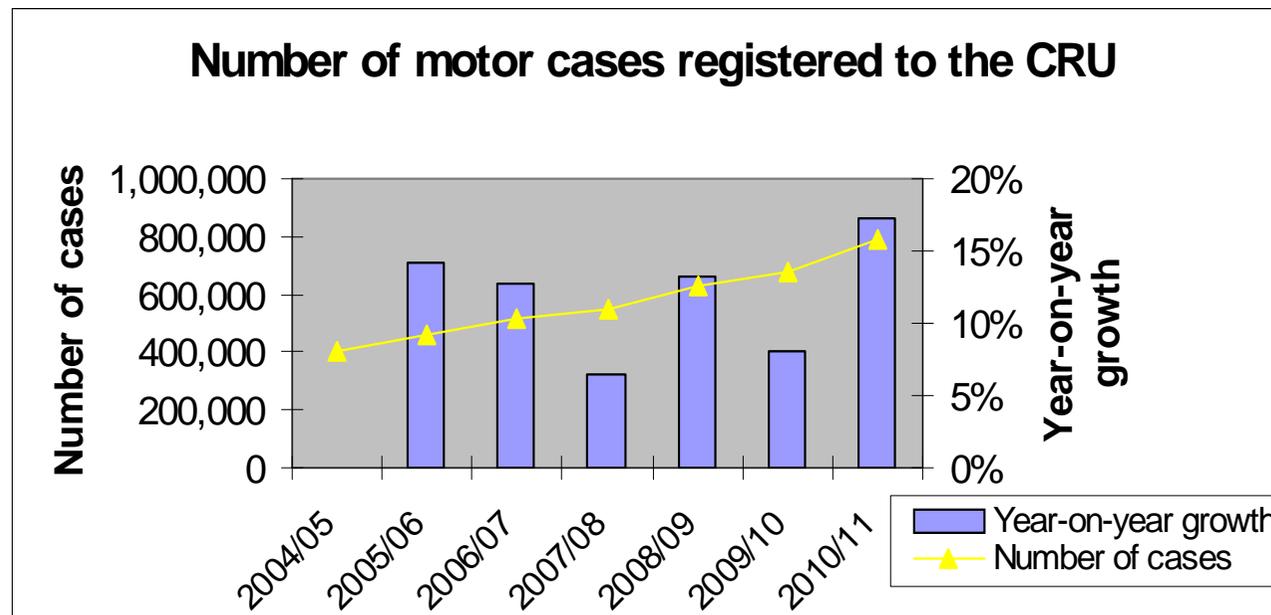
**Private Car Comp - All Distribution Channels - TPI Capped**  
Reported Claimants per Claim (inc nils)



Inflation Rates  
09-10: -2.2% 08-09: 4.1% 07-08: 5.3% 06-07: 3.8% 05-06: 7.6%

# Persistent increases in CRU claimants

- Number of motor cases registered to the Compensation Recovery Unit has increased in each year
- The number registered in the 2010-11 financial year was 17% higher than in the previous year, the highest recent level of year-on-year growth, but sits in the context of a long term 10% trend
- Whereas the insurer claimant per claim data in 2010 data **drops**. We note this puzzling difference but note:
  - CRU data is based on registration so may reflect an element of speeding up
  - Dates are not quite consistent with insurer claimant data and perhaps insurer claimant data is not as robust as other data
  - Potential distortion from Q4 2010 weather
  - Insurer data quality is not as high as for other data in this study



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# Private Car Comprehensive Experience by TV Region

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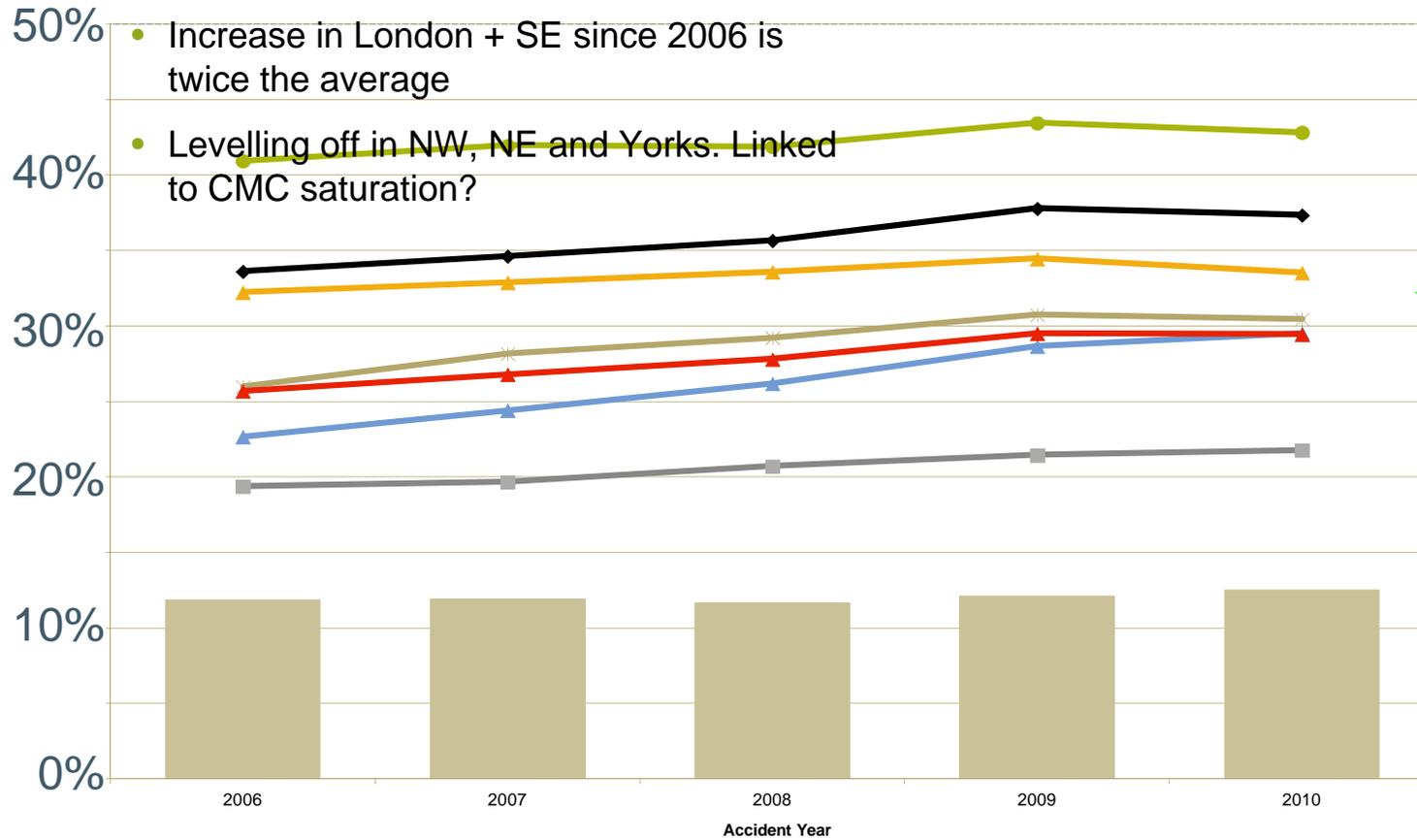
- Latest reported claim numbers and incurred claim amounts were provided split by geographic region
- These data were aggregated and a set of industry statistics produced that shows how key statistics vary by location in the UK
- These statistics are based on latest positions (ie on claim information excluding any estimate for IBNR or IBNER claims or amounts) which should be considered when interpreting any results
- The analysis was restricted to Private Car Comprehensive due to insufficient quantities of data in other lines of business
- Some differences in absolute level of KPIs compared with last year's analyses are present
- These differences are caused by there being a different basket of contributing companies this year
- Relative trends generally reinforce the trends identified last year.

# TPI / TPD numbers by TV region (Private Car Comprehensive) - NW higher than worst in US

USA's most litigious States

- Continued strong increases in London + SE and Kent + Essex

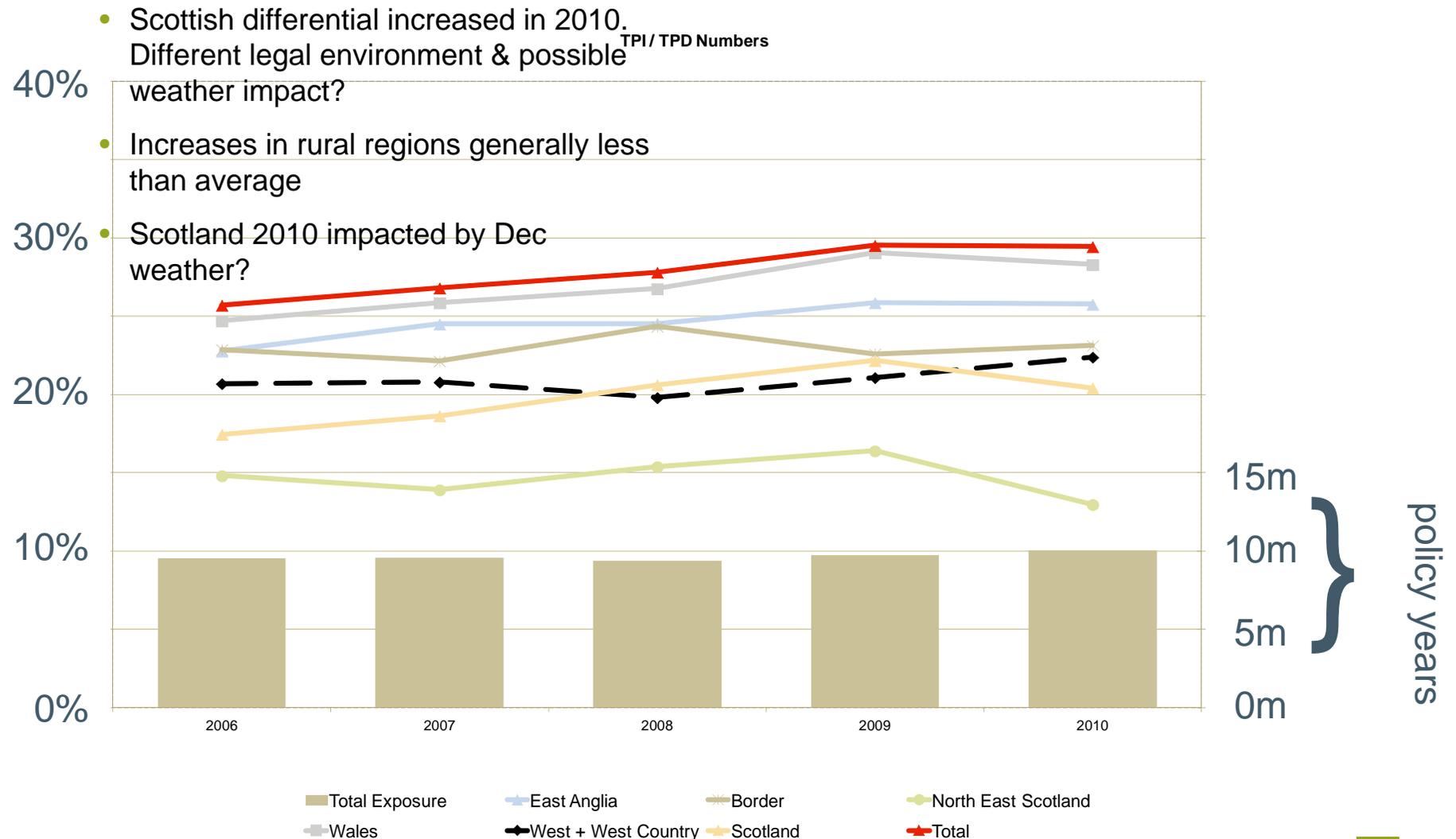
TPI/TPD Numbers



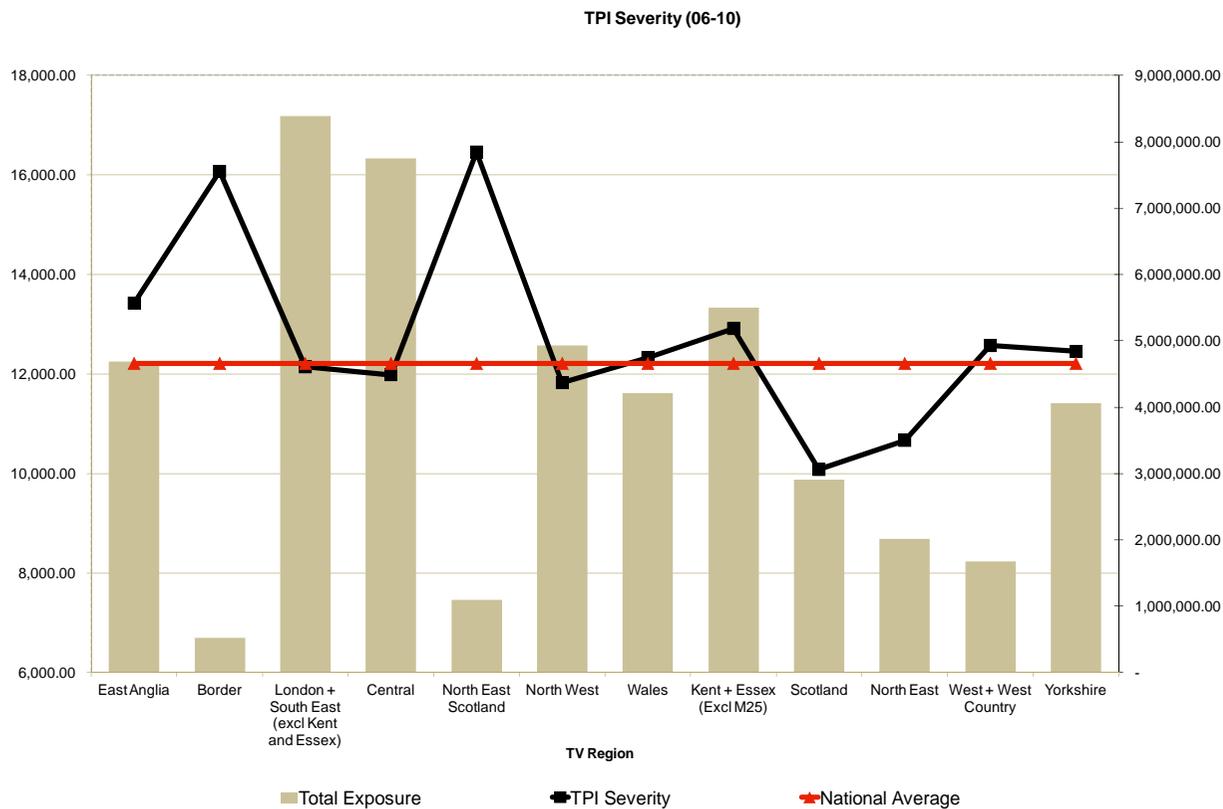
- Nevada 40.3%
- Louisiana 39.3%
- Rhode Island 39.2%
- Oregon 35.1%
- South Carolina 35.0%
- Washington 33.4%

■ Total Exposure ■ London + South East (excl Kent and Essex) ■ Central ■ North West ■ Kent + Essex (Excl M25) ■ North East ■ Yorkshire ■ Total

# TPI / TPD numbers by TV region (Private Car Comprehensive) – NE Scotland < 1/3rd NW England

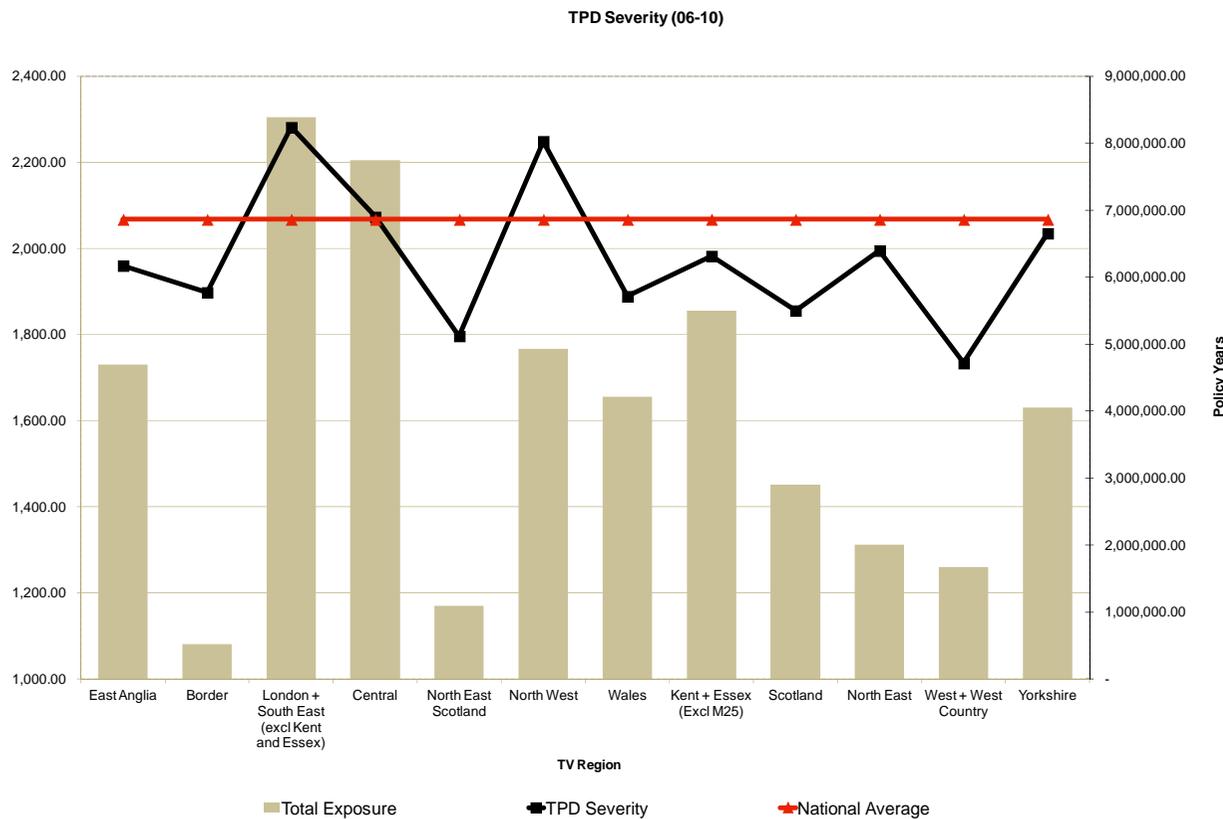


# Third Party Injury average cost by TV region (Private Car Comprehensive)



- London severity in line with average, NW and Central only slightly below.
- Rural areas display higher severities, perhaps owing to a higher proportion of large claims
- Scotland (excl NE Scotland and Border) and North East have much lower severity.
- Uncapped data

# Third Party Damage average cost by TV region (Private Car Comprehensive)



- Highest TPD severities in London and NW
- Regions with high TPI frequency and low TPI severity display relatively high TPD severity
- Last year's Working Party showed a correlation between high TPI frequency and CMC activity

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## Notes to Accident Year Triangles

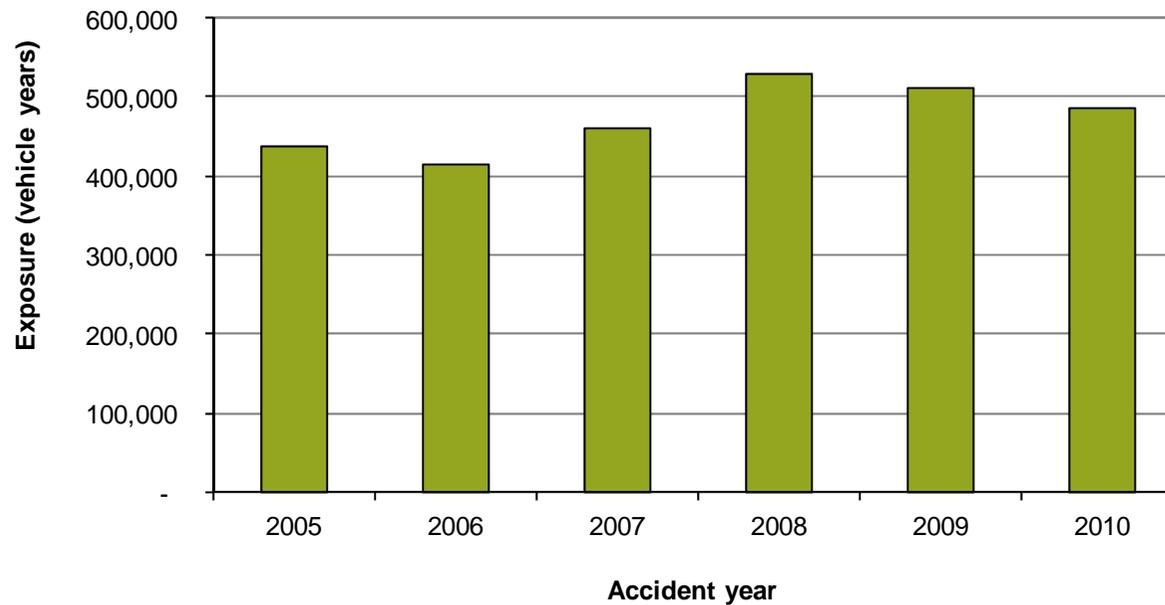
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- Most of the graphs show industry accident year triangulation progressions
- This facilitates the comparison of experience on a “like-for-like” basis (at least in relation to development)
- Inflation rates shown are the latest point in the year compared to the previous accident year at the same point in development

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# Motorcycle exposure

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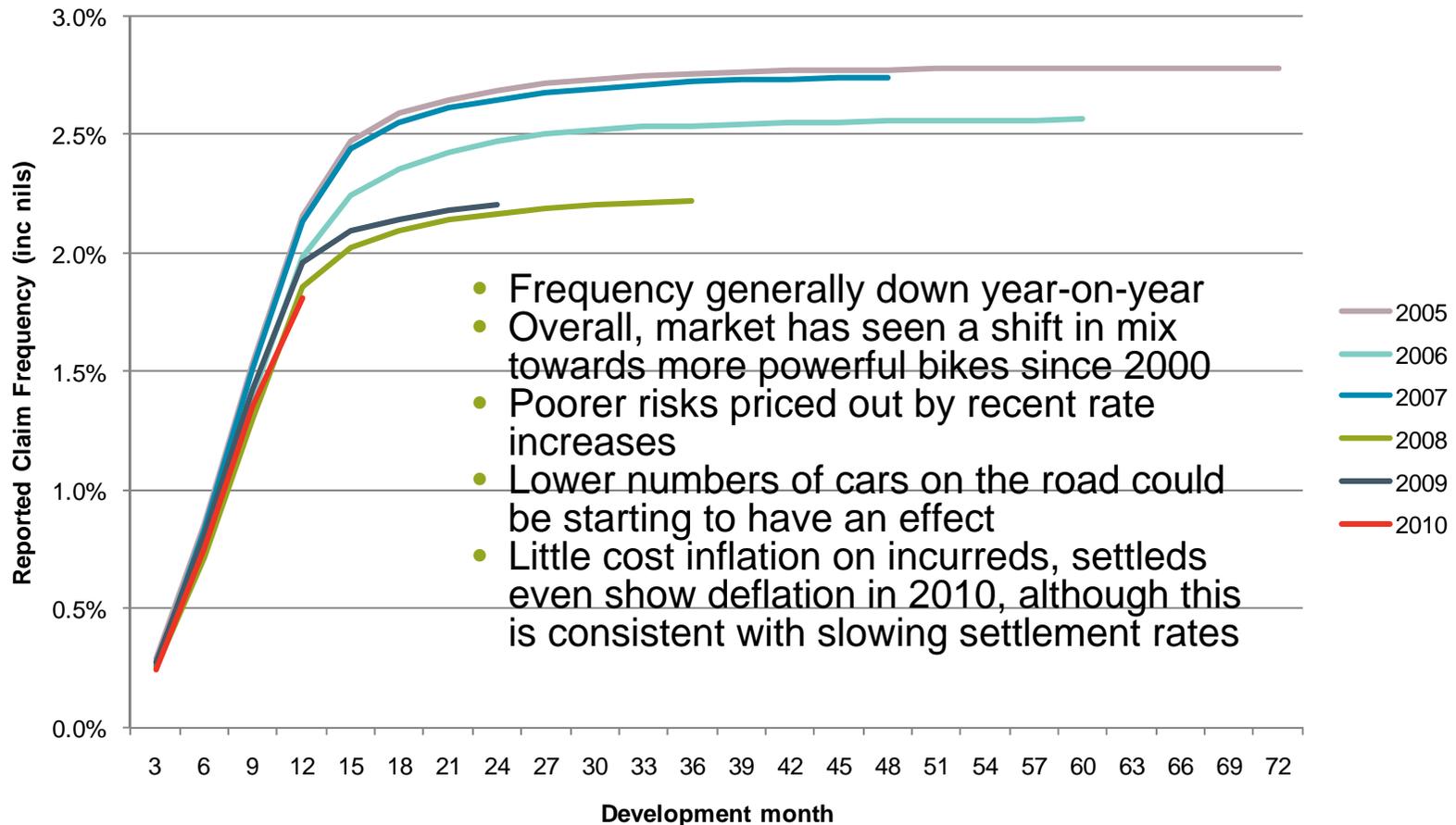


Exposure increased from 2005-2008 but has then decreased by about 4% per annum

# Motorcycle

## Motorcycle - All Distribution Channels - TPD

Reported Claim Frequency (inc nils)

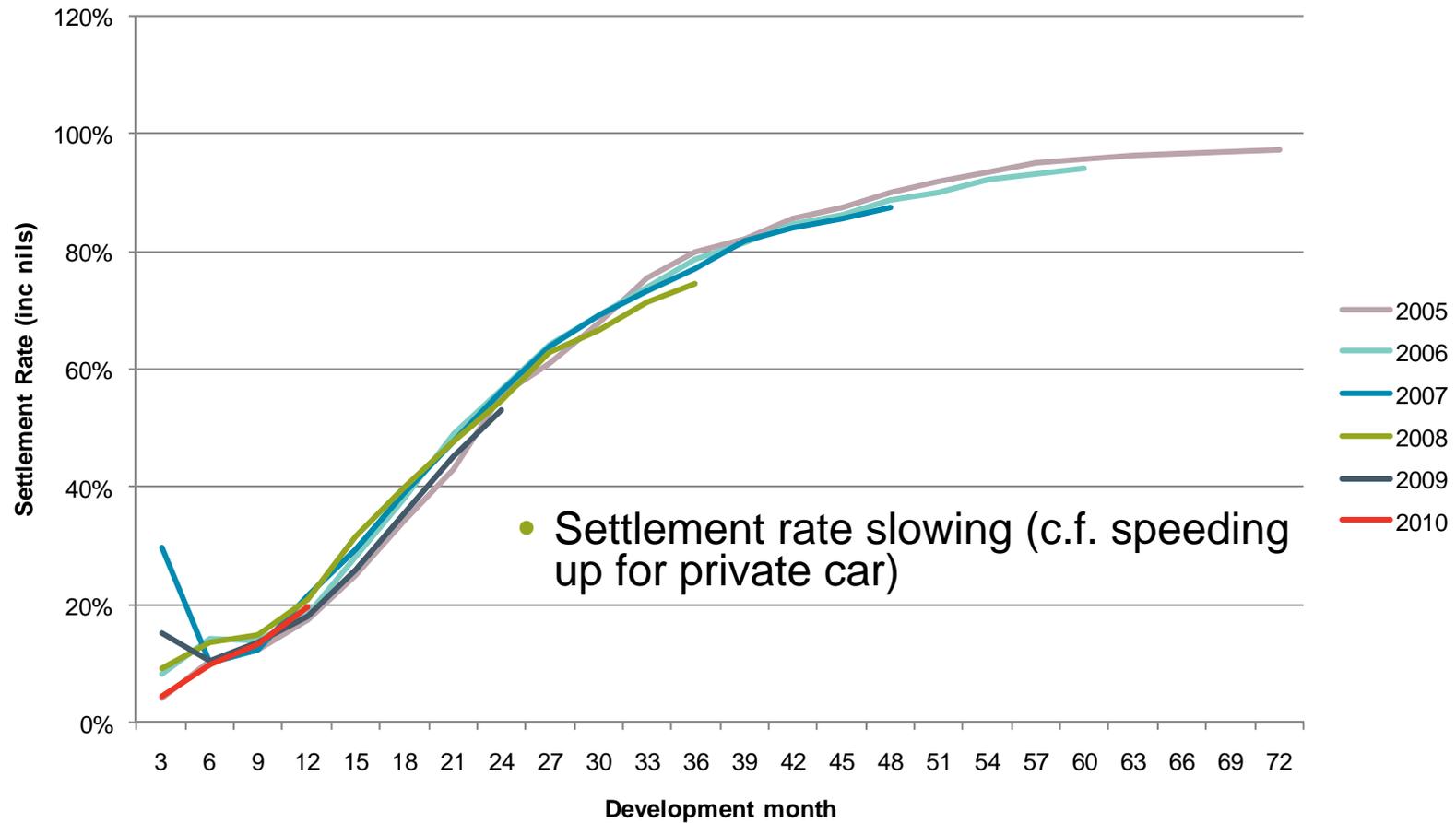


- Frequency generally down year-on-year
- Overall, market has seen a shift in mix towards more powerful bikes since 2000
- Poorer risks priced out by recent rate increases
- Lower numbers of cars on the road could be starting to have an effect
- Little cost inflation on incurreds, settleds even show deflation in 2010, although this is consistent with slowing settlement rates

**Inflation Rates**  
 09-10: -7.7% 08-09: 1.8% 07-08: -18.5% 06-07: 7.2% 05-06: -7.8%

# Motorcycle

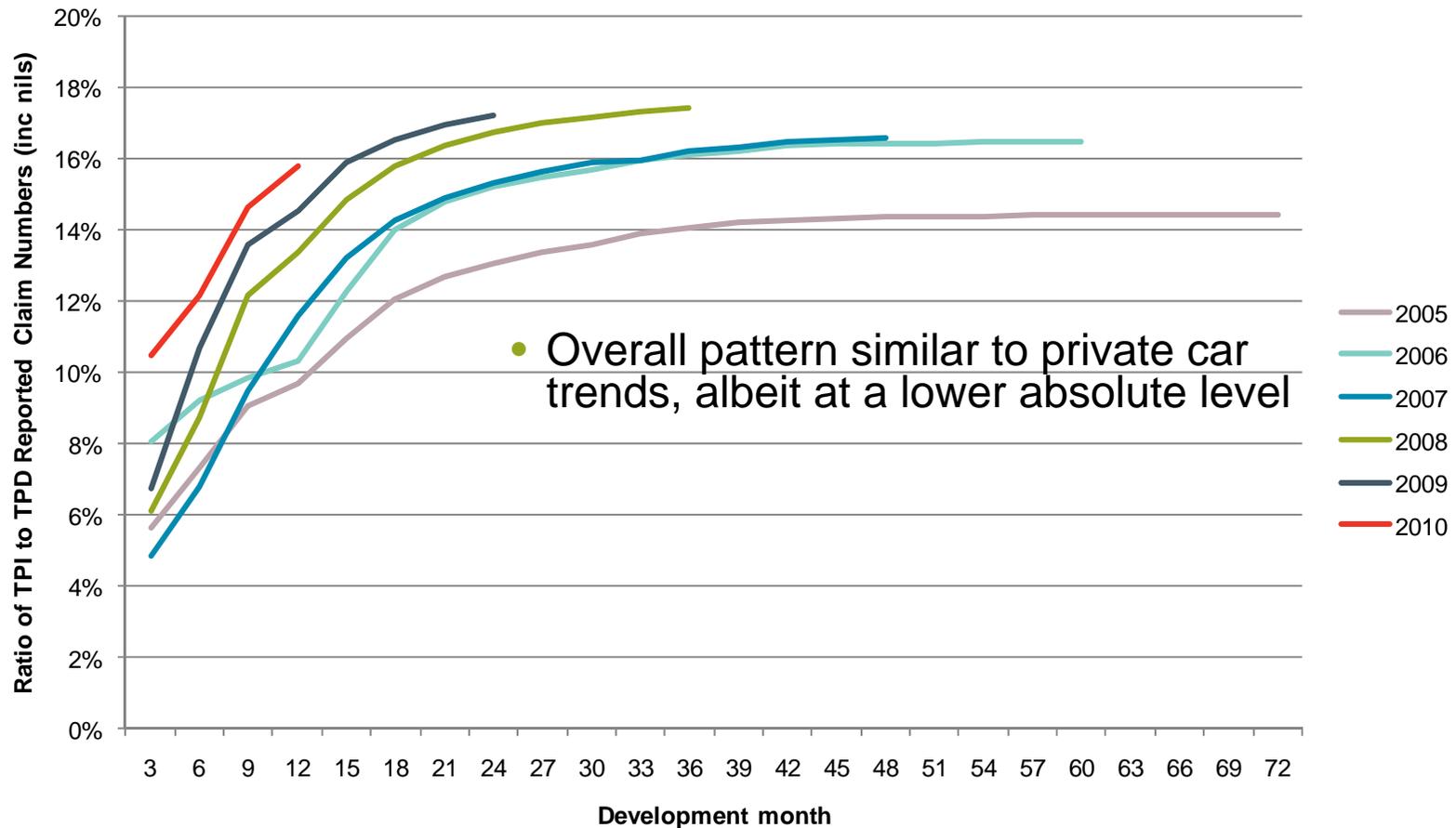
**Motorcycle - All Distribution Channels - TPI Capped**  
Settlement Rate (inc nils)



Inflation Rates  
09-10: 8.3% 08-09: -2.8% 07-08: -3.2% 06-07: -1.4% 05-06: -1.8%

# Motorcycle

**Motorcycle - All Distribution Channels**  
Ratio of TPI to TPD Reported Claim Numbers (inc nils)



**Inflation Rates**  
09-10: 8.7% 08-09: 2.8% 07-08: 7.4% 06-07: 0.9% 05-06: 14.1%

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# Non Fleet Commercial Vehicles (CV) and Fleet - Data Quality

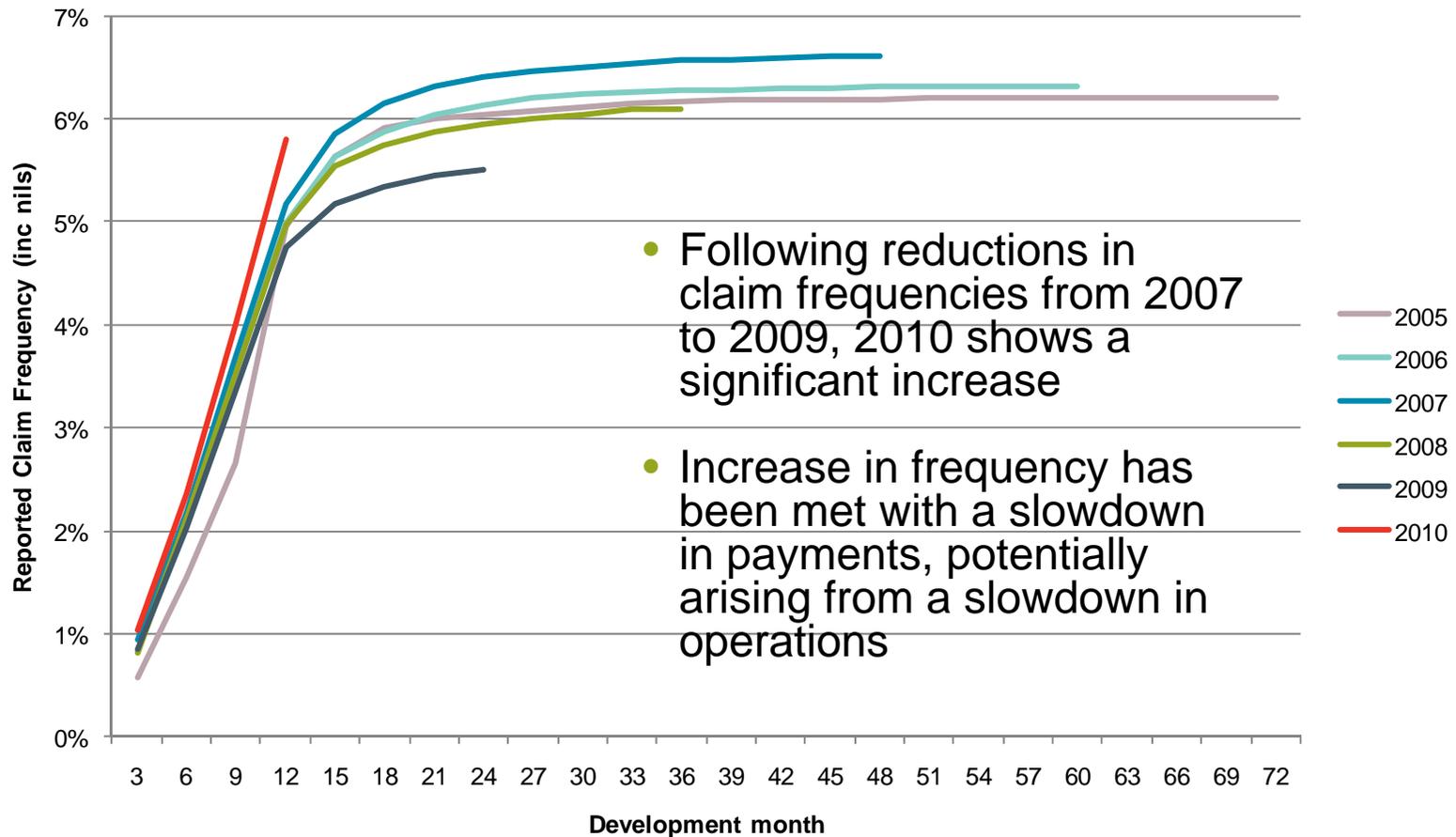
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- The Working Party has decided not to release charts where prior year trends have changed significantly from last year's analysis where this has been due to contributors providing data which Towers Watson (or the contributors) do not believe to be accurate. Such decisions have typically followed discussions between Towers Watson and individual data contributors on their data. In such cases we have sometimes been able to create a chart which excludes the contributor in question
- Very few contributors have been able to provide data on settlement rate this year
- Generally, data availability and quality for CV & Fleet is significantly inferior to private car business, which makes it very challenging to produce results for prior years which are consistent with those presented last year.

# CV

## CV - All Distribution Channels - TPD

Reported Claim Frequency (inc nils)



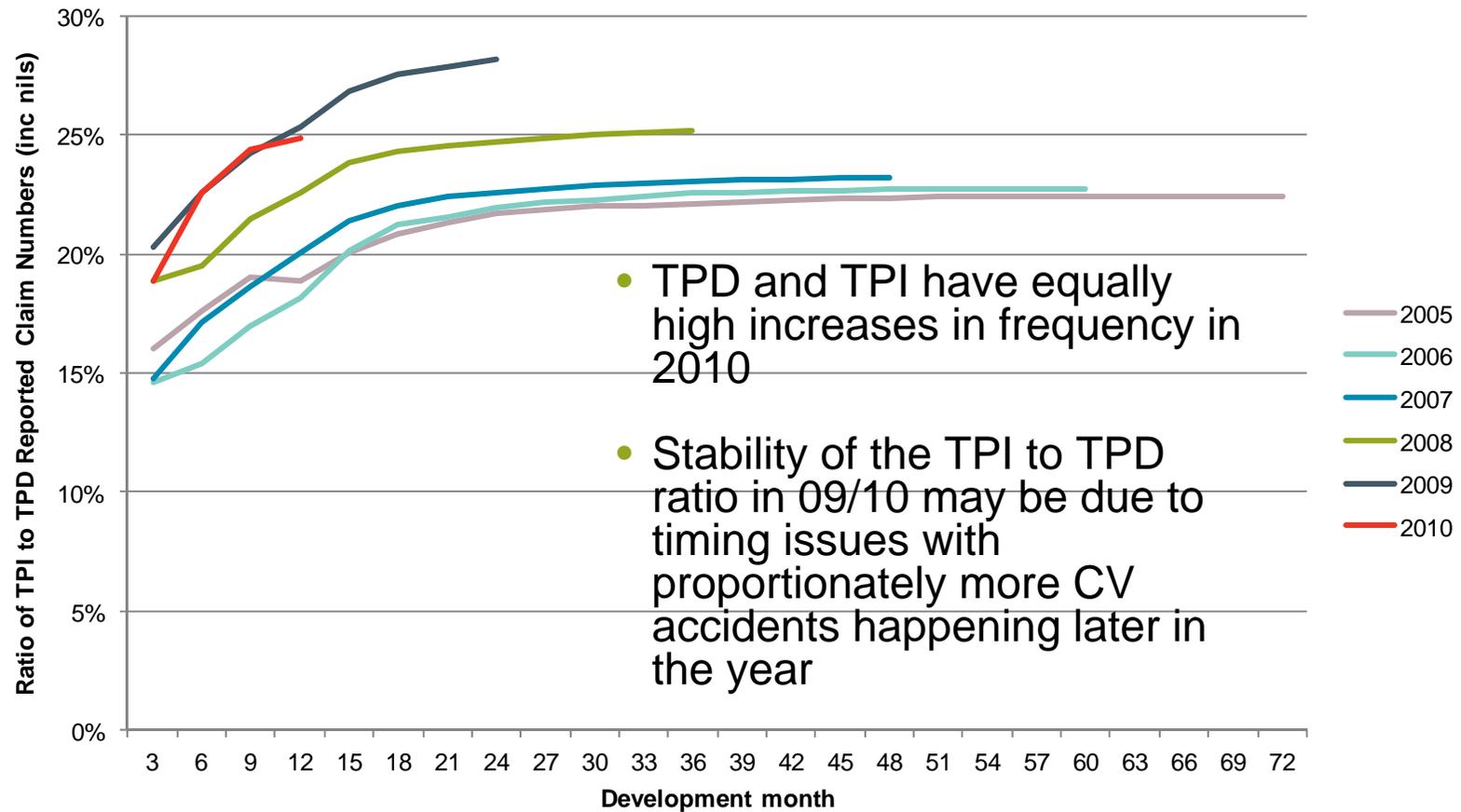
- Following reductions in claim frequencies from 2007 to 2009, 2010 shows a significant increase
- Increase in frequency has been met with a slowdown in payments, potentially arising from a slowdown in operations

**Inflation Rates**  
 09-10: 22.2% 08-09: -7.6% 07-08: -7.2% 06-07: 4.8% 05-06: 1.9%

# CV

## CV - All Distribution Channels

Ratio of TPI to TPD Reported Claim Numbers (inc nils)



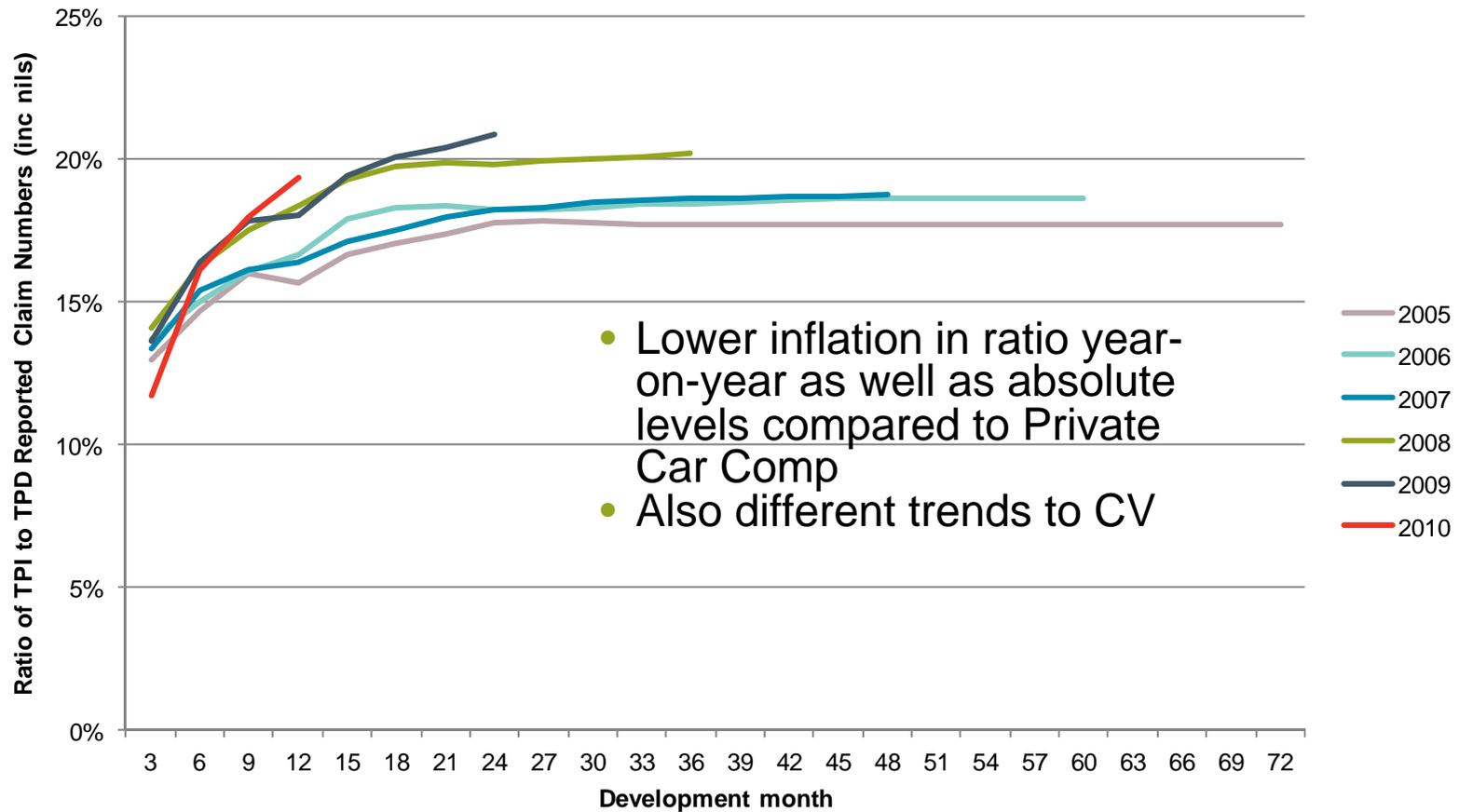
- TPD and TPI have equally high increases in frequency in 2010
- Stability of the TPI to TPD ratio in 09/10 may be due to timing issues with proportionately more CV accidents happening later in the year

### Inflation Rates

09-10: -1.7% 08-09: 13.9% 07-08: 9.3% 06-07: 2.4% 05-06: 1.4%

# Fleet

**Fleet - All Distribution Channels**  
 Ratio of TPI to TPD Reported Claim Numbers (inc nils)



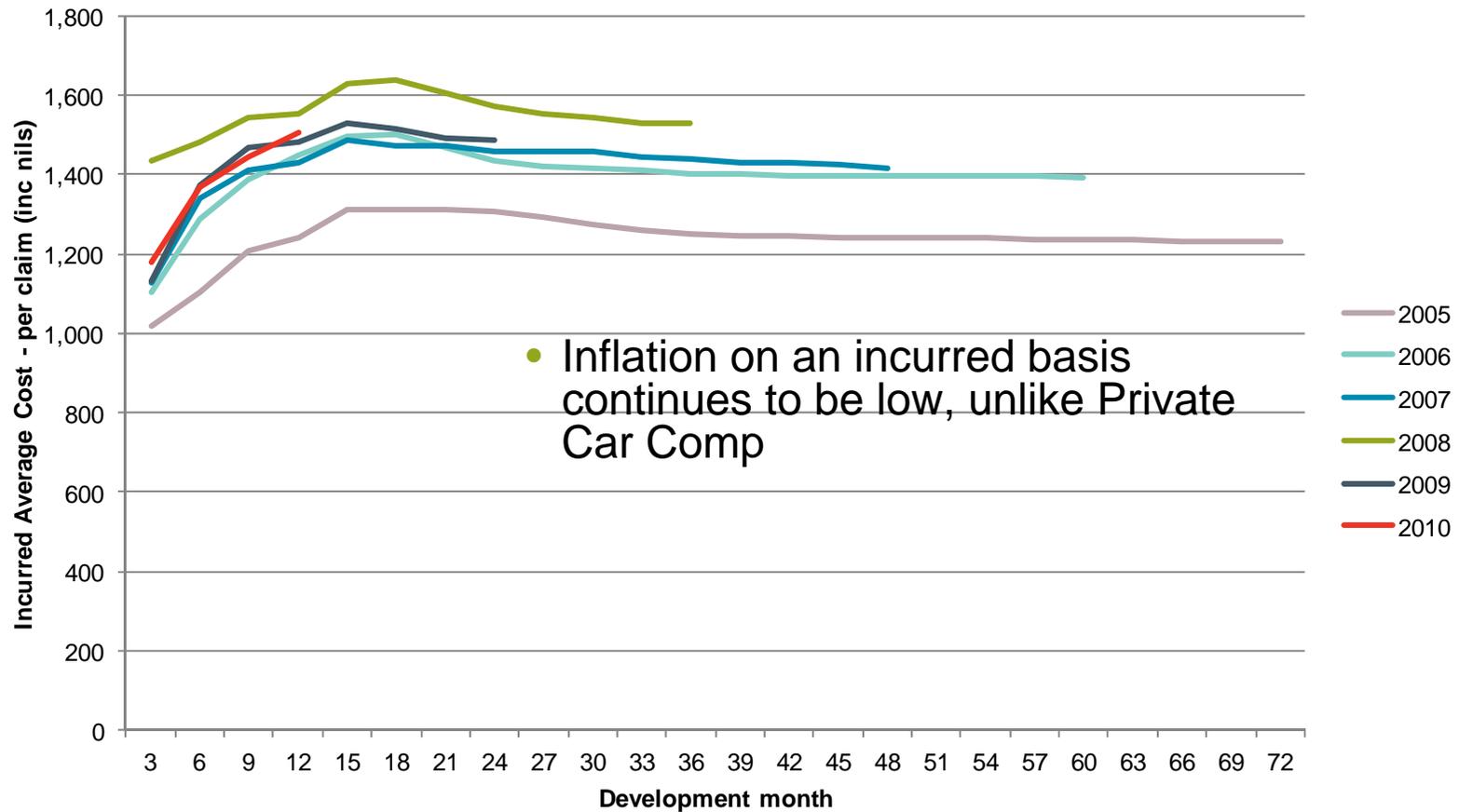
- Lower inflation in ratio year-on-year as well as absolute levels compared to Private Car Comp
- Also different trends to CV

**Inflation Rates**  
 09-10: 7.3% 08-09: 5% 07-08: 8.8% 06-07: 0.6% 05-06: 5.2%

# Fleet

## Fleet - All Distribution Channels - TPD

Incurred Average Cost - per claim (inc nils)



• Inflation on an incurred basis continues to be low, unlike Private Car Comp

### Inflation Rates

09-10: 1.7% 08-09: -5.4% 07-08: 6.2% 06-07: 1.2% 05-06: 12.9%

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# Excess of Capped TPI Analysis

## Introduction

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- Data formats and analysis identical to IUA Bodily Injury Studies
- Anonymised data was provided for individual TPI claims relating to accident years 2000 through to 2010 (inclusive)
- Data was provided “as at” 31 December 2010
- The analysis investigated the cost of claims in excess of a threshold of £100,000 in 2010 money, indexed at 7% per annum
- The analysis was restricted to Private Car Comprehensive due to insufficient quantities of data in other lines of business
- Results are generally shown for accident years 2002 through to 2010, owing to reduced exposure for the 2000 and 2001 accident years.

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# Excess of Capped TPI Analysis

## Introduction

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- The threshold for the relevant accident years are based on £100k in 2010 money indexed at 7%
- The thresholds are slightly lower than those used in the capped claims analysis shown in the Capped Bodily Injury results (thresholds were equal to £50k in 1999 money indexed at 7% per annum, c.f. £47.5k in 1999 money)
- This was done to maximise consistency with the IUA Bodily Injury Studies

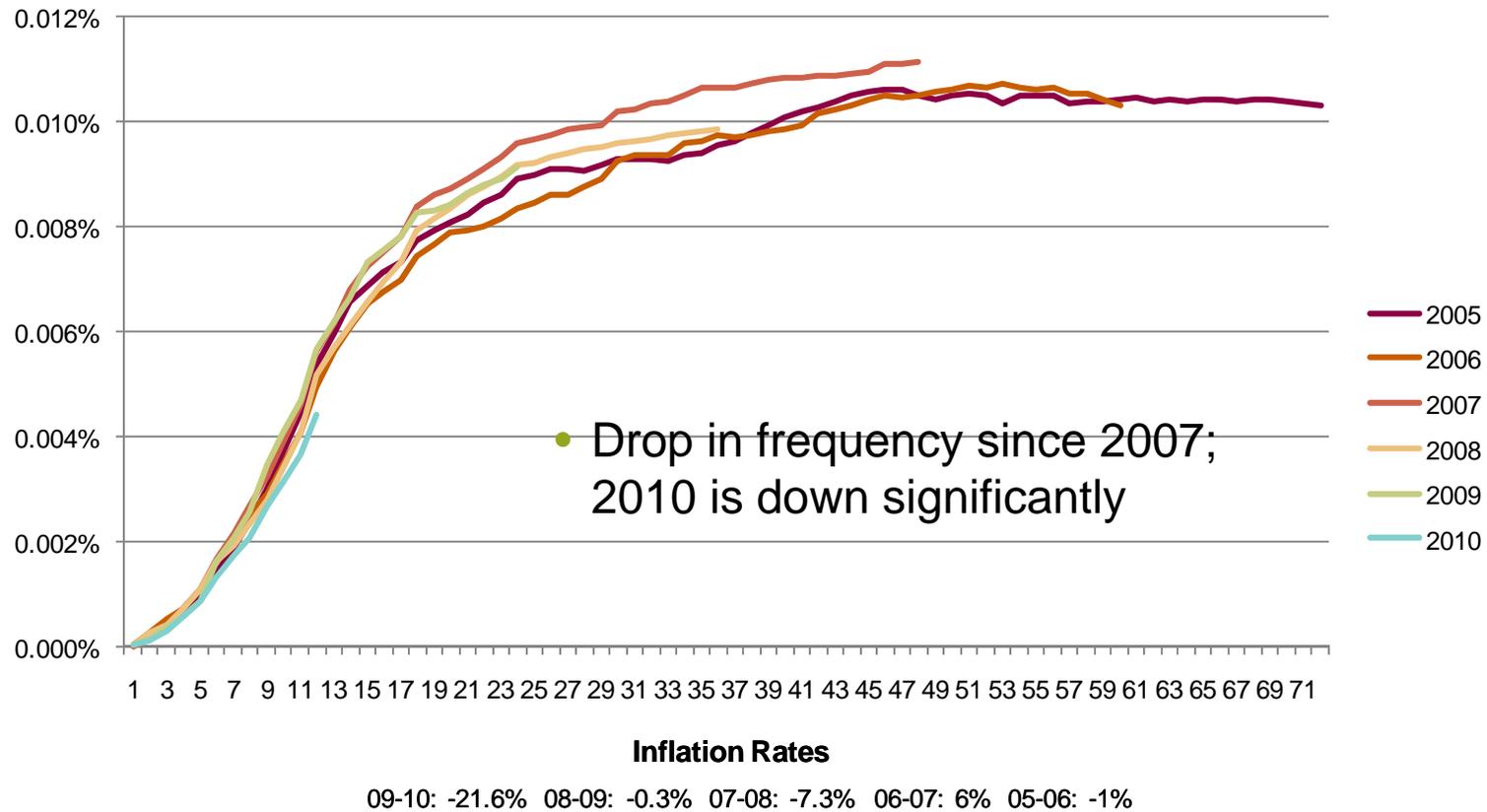
Accident Year	Threshold
2000	50,835
2001	54,393
2002	58,201
2003	62,275
2004	66,634
2005	71,299
2006	76,290
2007	81,630
2008	87,344
2009	93,458
2010	100,000

- The following charts show key features of the development of the claims
- Some prior years have been omitted from some of the charts in order to focus on the areas of greatest interest
- The horizontal axis shows the number of development months since the start of each accident year.

# Excess of Capped TPI Analysis

## Data Trends

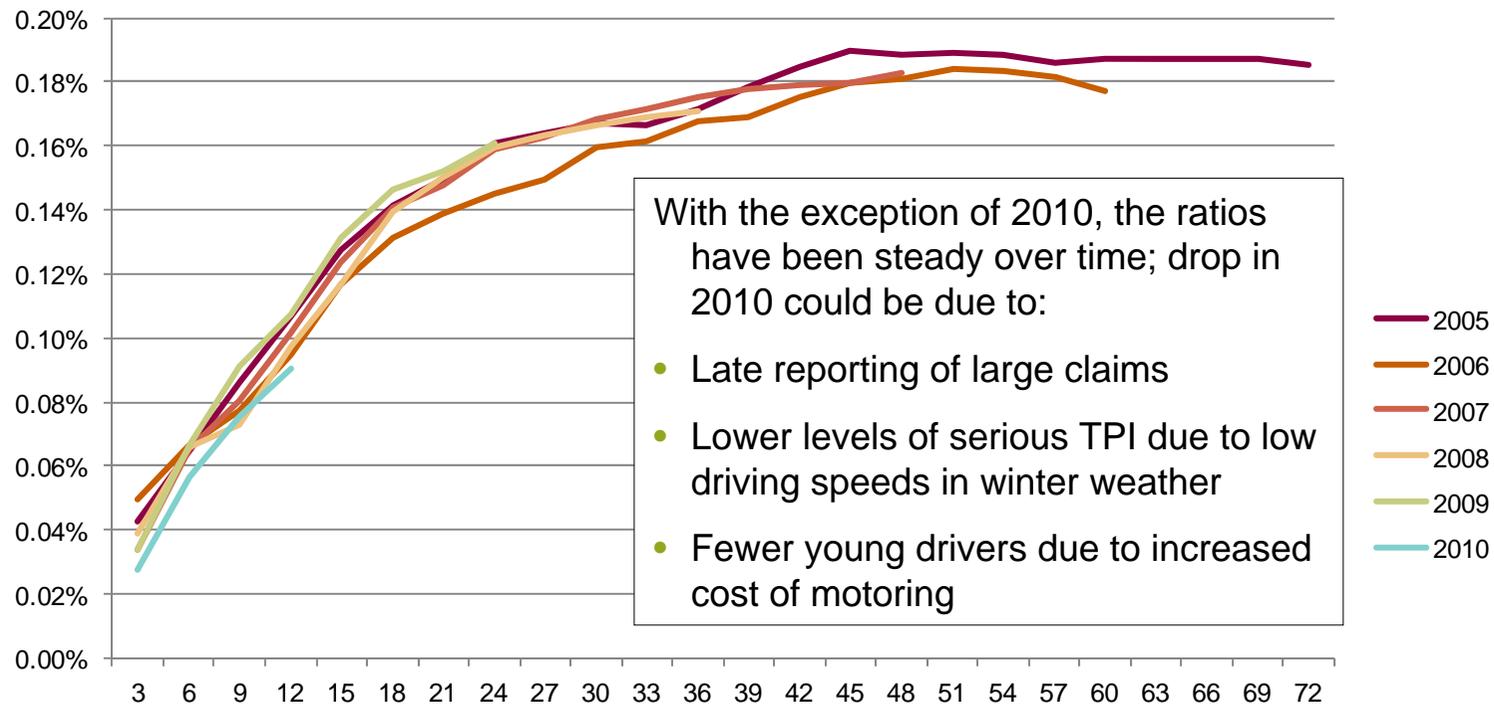
### Excess of Capped Claim Frequency



# Excess of Capped TPI Analysis

## Data Trends

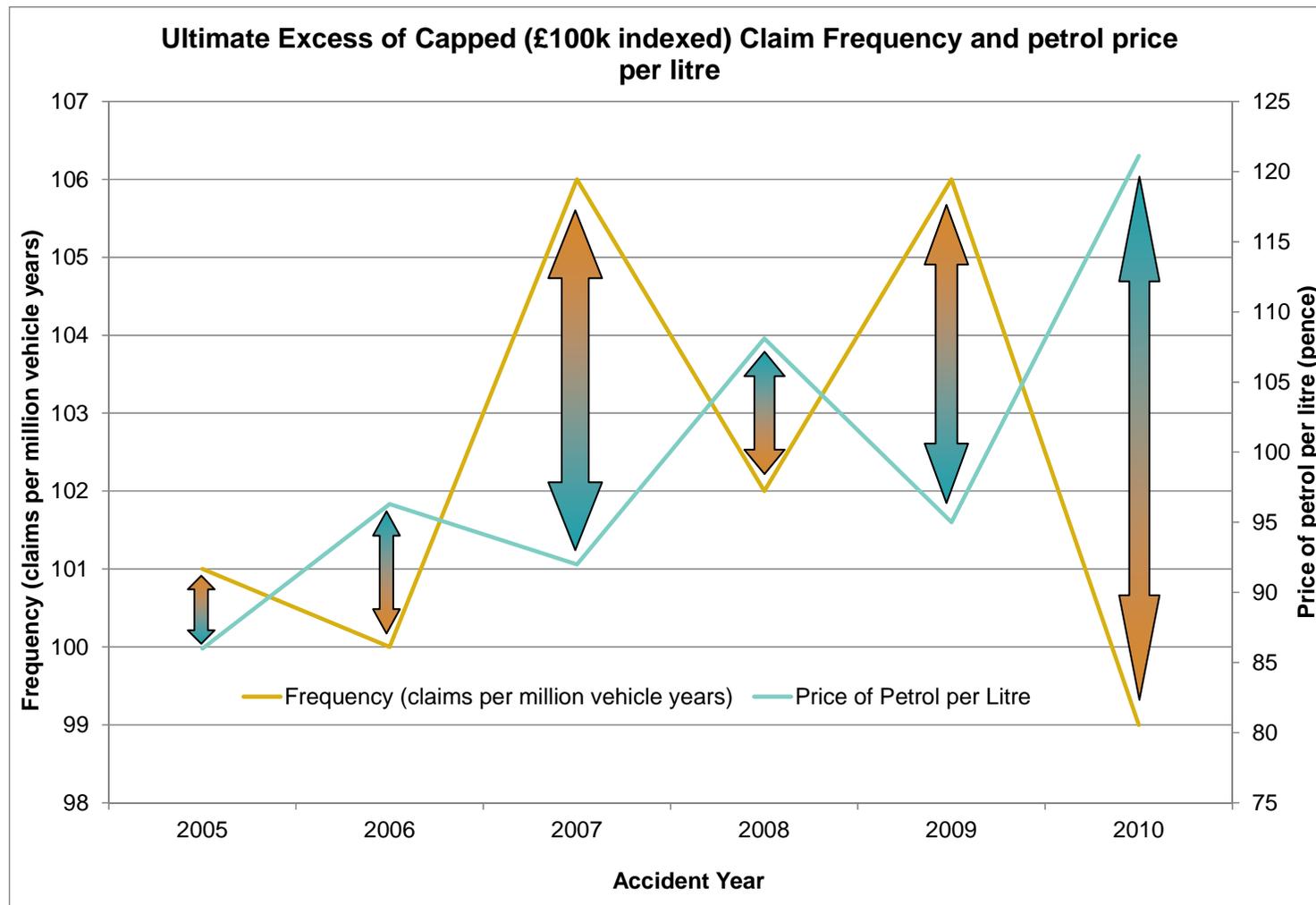
**Ratio of Excess BI to TPD reported numbers**



**Inflation Rates**

09-10: -16.1% 08-09: 0.7% 07-08: -2.6% 06-07: 1% 05-06: -5.1%

# Large claims frequency vs. petrol prices

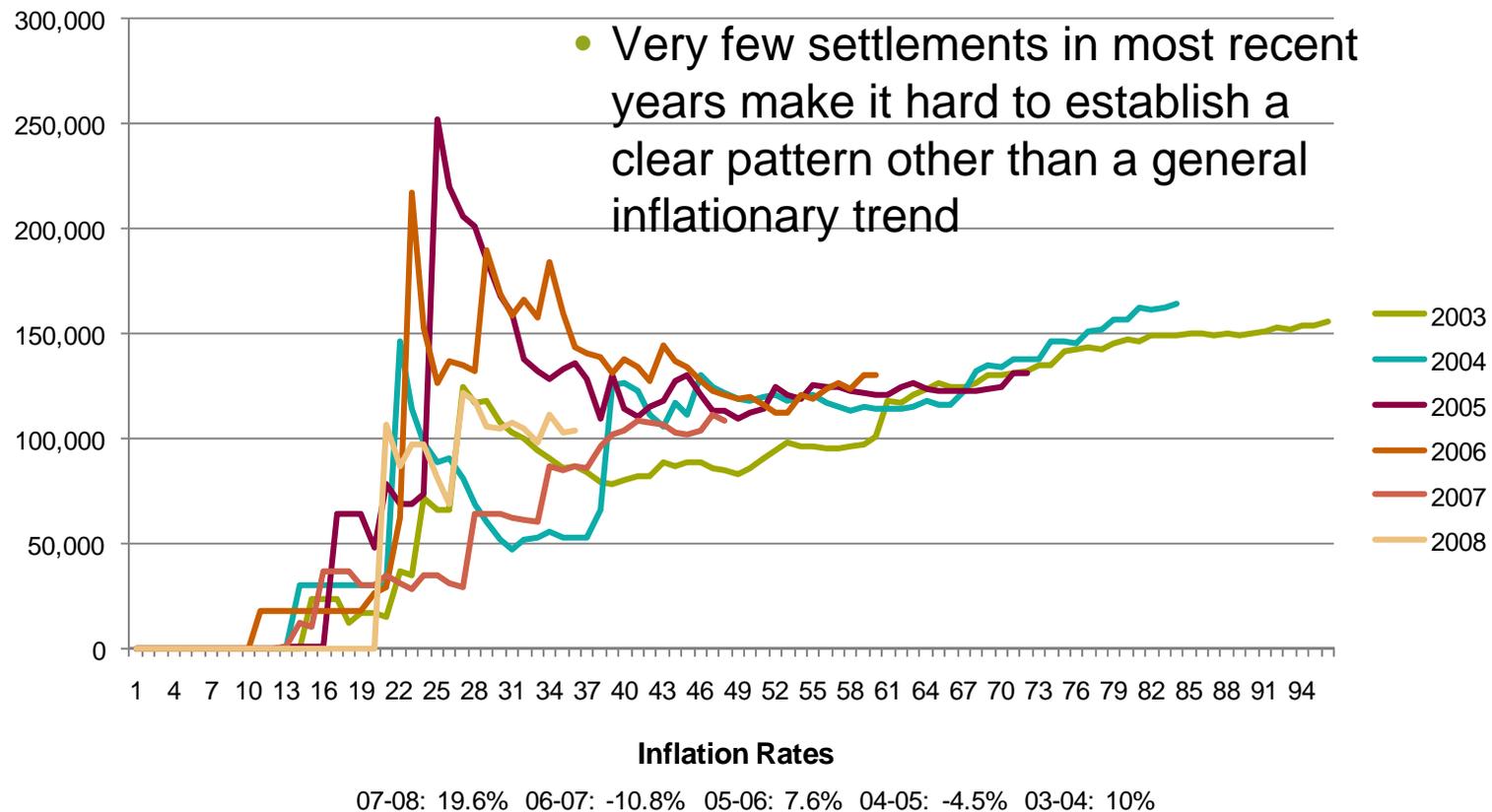


*Petrol price data from the Automobile Association*  
[http://www.theaa.com/motoring\\_advice/running\\_costs/archive.html](http://www.theaa.com/motoring_advice/running_costs/archive.html)

# Excess of Capped TPI Analysis

## Data Trends

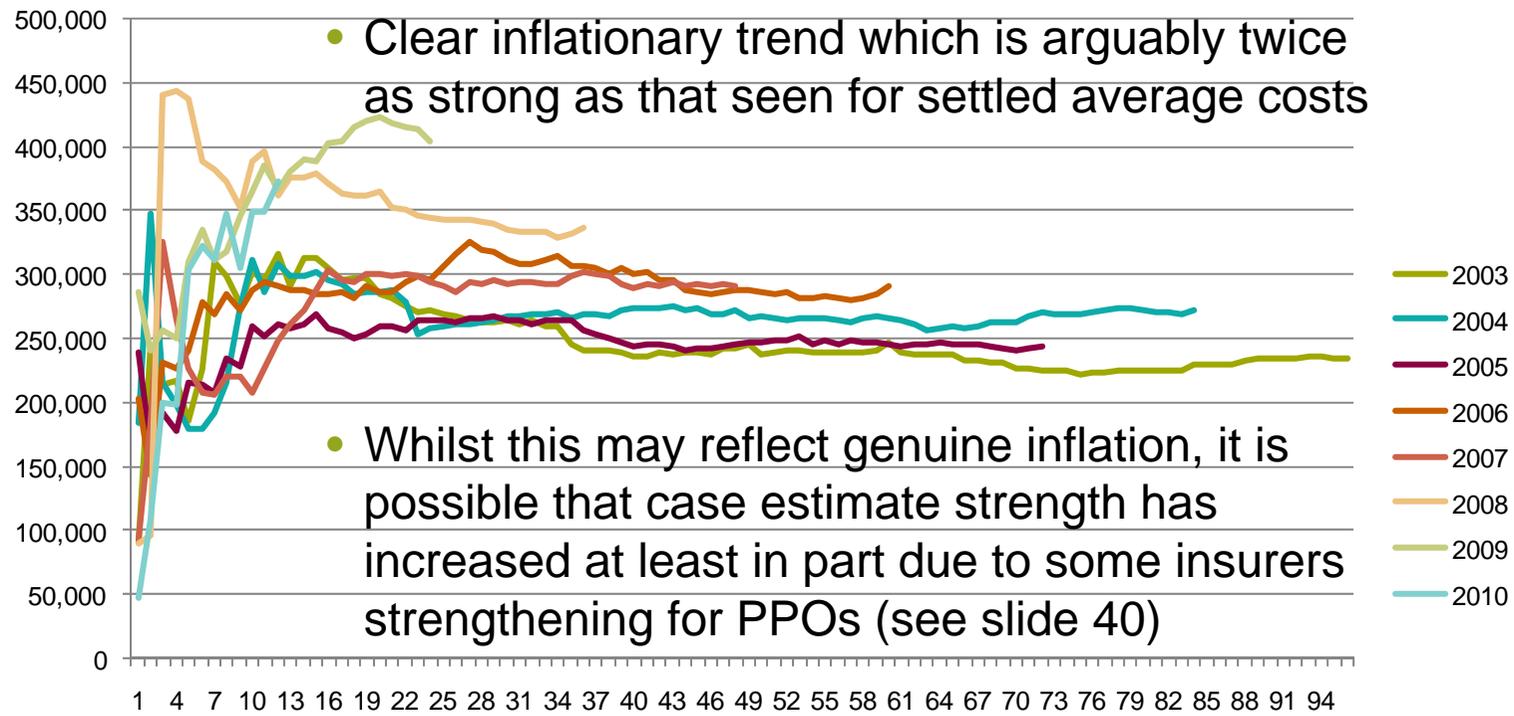
### Excess of Capped Settled Average Cost



# Excess of Capped TPI Analysis

## Data Trends

### Excess of Capped Incurred Average Cost



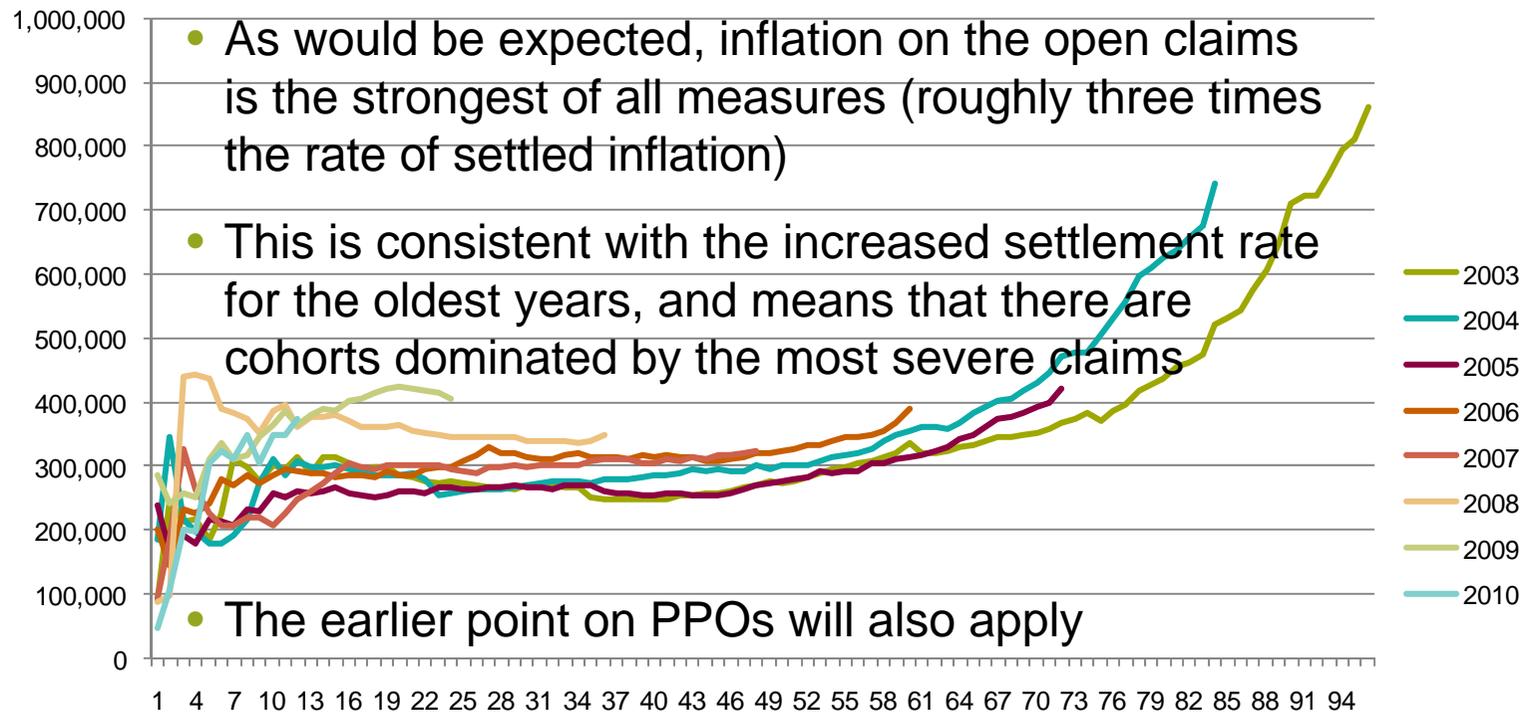
#### Inflation Rates

09-10: 1.7% 08-09: 17.5% 07-08: 11.9% 06-07: 1.1% 05-06: 18.1% 04-05: -10% 03-04: 18.2%

# Excess of Capped TPI Analysis

## Data Trends

### Excess of Capped Average Cost of Open Claims



#### Inflation Rates

09-10: 1.9% 08-09: 17.3% 07-08: 11.7% 06-07: 1% 05-06: 23.4% 04-05: -10.4% 03-04: 42.8%

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# Excess of Capped TPI Analysis

## Projected Ultimate Claims – Uncertainty

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- Rigorously straightforward mechanistic projection methodology
- No tail beyond 11 years as no data
- **An x% tail factor would increase ultimates for all accident years by x% but with the same trend across years.**
- The Ogden consultation and version 7 of the Ogden tables are most likely not reflected in insurers' data:
  - Any increase in longevity assumptions or drop in the discount rate would lead to additional inflation
  - Such increases may however be mitigated at least partially by PPOs being less attractive to insurers.
- The **PPO** Working Party has found range of approaches to PPO case reserves. Quoted inflation rates may be overstated excluding PPOs but understated including PPOs
- **2010 Q4 had poor weather** in December, bringing potential reporting delays & lower impact speeds and less TPI (see Appendix 1 Slide 128 )
- The most recent accident years are immature in their development and as such are subject to material uncertainty
- Due to lack of development data, Paid triangles were not used. As such projections are subject to uncertainty caused by changes in case reserve strength over time

# Excess of Capped TPI Analysis

## Projected Ultimate Claims

Projected Ultimate Excess of Capped TPI Results for Private Car Comprehensive

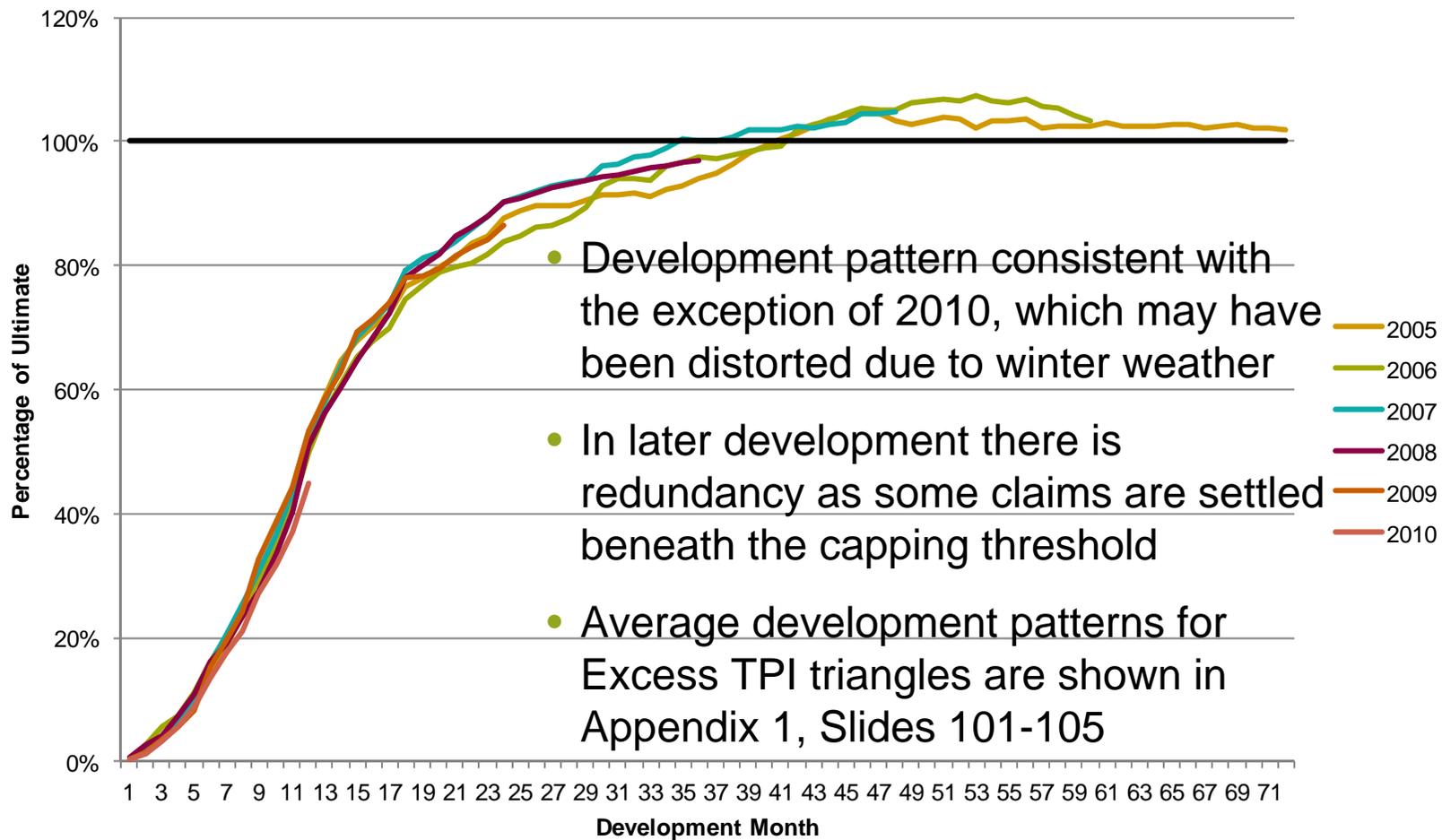
Accident Period	Earned Exposure  (millions of vehicle years)	Ultimate Excess of Capped Claim Frequency  (claims per million vehicle years)	Ultimate Excess of Capped Claim Severity  (£)	Ultimate Excess of Capped Burning Cost  (£)	Year-on-Year Change in Frequency  (% pa)	Year-on-Year Change in Severity  (% pa)	Year-on-Year Change in Burning Cost  (% pa)
2002	10.73	121	264,174	31.9			
2003	12.23	110	239,715	26.3	-9.3%	-9.3%	-17.7%
2004	12.68	98	280,907	27.5	-10.5%	17.2%	4.8%
2005	13.13	101	254,733	25.8	3.5%	-9.3%	-6.1%
2006	13.11	100	305,617	30.5	-1.6%	20.0%	18.0%
2007	12.48	106	303,334	32.2	6.4%	-0.7%	5.6%
2008	12.27	102	342,928	34.9	-4.2%	13.1%	8.4%
2009	12.77	106	395,167	41.9	4.2%	15.2%	<b>20.1%</b>
2010	12.96	99	378,975	37.5	-6.6%	-4.1%	-10.5%

- 2009 was a bad year with burning cost inflation of 20%. More typical inflation might be 5-10%. Improvements seen in 2010 may be a return to normal levels of claims experience after 2009 but may be distorted due to winter weather
- Burning cost trends are driven by severity rather than frequency

# Excess of Capped TPI Analysis

## Projected Ultimate Claims

**Excess TPI Claim Numbers - Percentage of Ultimate**



- Development pattern consistent with the exception of 2010, which may have been distorted due to winter weather
- In later development there is redundancy as some claims are settled beneath the capping threshold
- Average development patterns for Excess TPI triangles are shown in Appendix 1, Slides 101-105

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# Excess of Capped TPI Analysis

## Projected Ultimate Claims

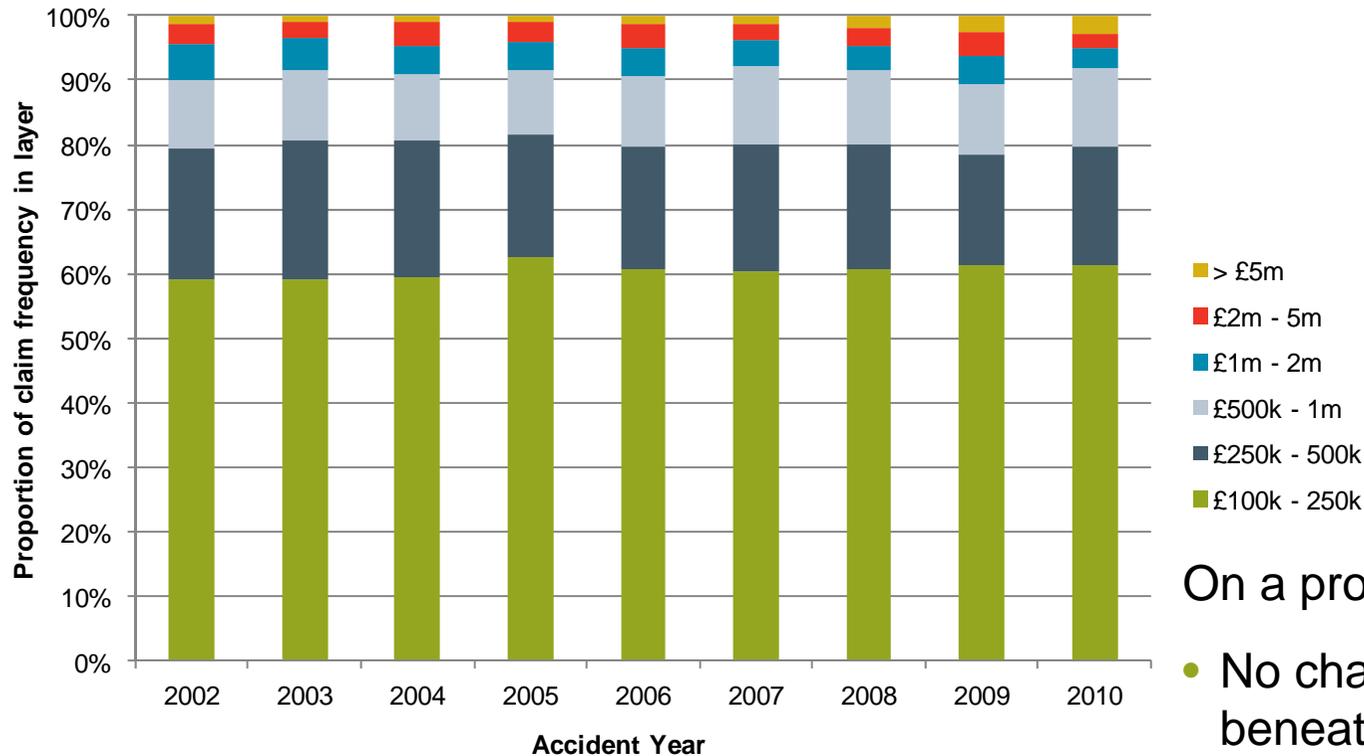
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- Claim numbers and claim amounts were projected in a series of (unindexed) layers:
  - A seventh layer between £100k unindexed and £100k indexed was used to calculate results in excess of £100k indexed. Results for this layer are not included in analysis of layers.
  - The definition of the layers is such that a claim of £1m contributes £150k to the lowest layer, £250k to next layer and £500k to the next layer.
  - This approach allowed the estimation of claim frequencies, average costs and burning costs within layers to be estimated for each accident year.
  - Note that although the nominal £100k-250k frequency is increasing, slide 34 shows that the frequency of claims in excess of the indexed threshold has been falling. The increase in frequency seen on an unindexed basis is due to underlying natural inflation.
- £100k to £250k
  - £250k to £500k
  - £500k to £1m
  - £1m to £2m
  - £2m to 5m
  - £5m+
  - & £100k indexed to £100k

# Excess of Capped TPI Analysis

## Projected Ultimate Claims

Proportion of Ultimate Claim Frequencies in Layer



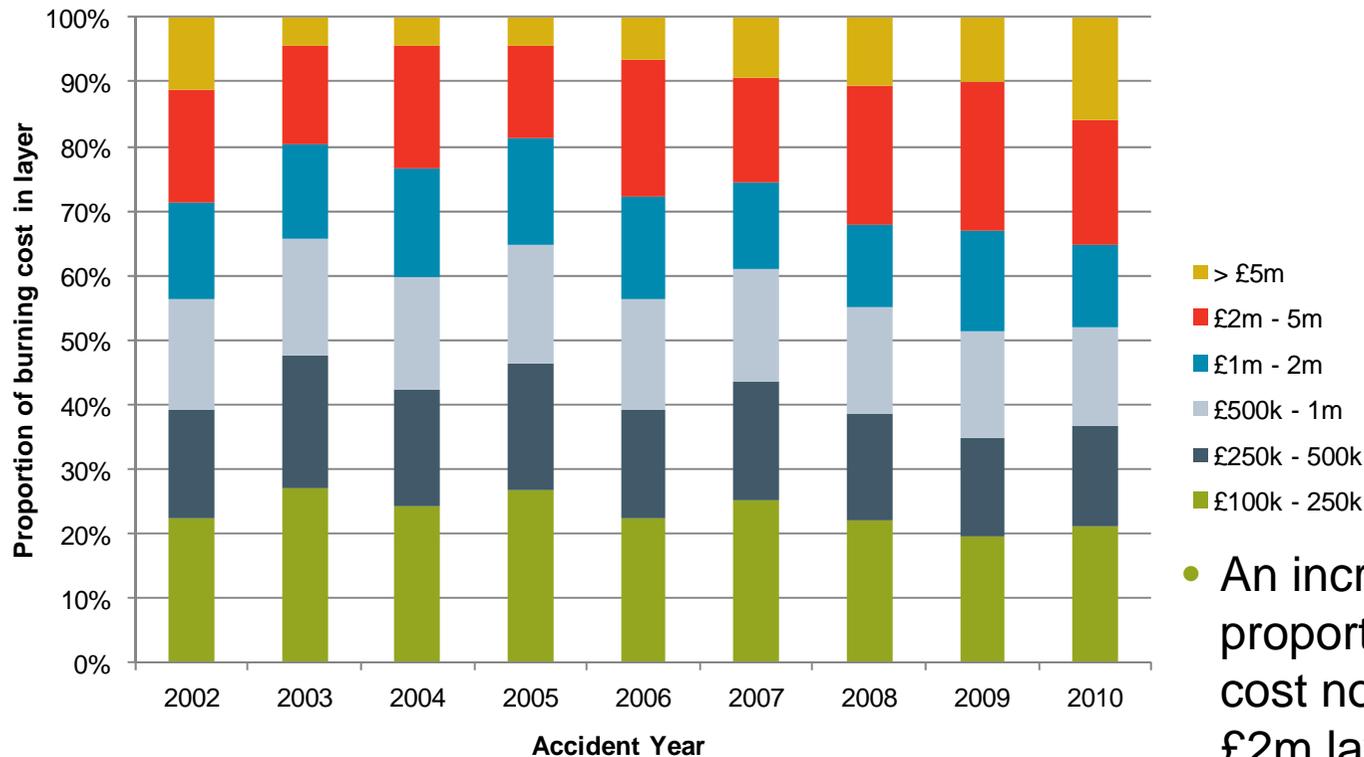
On a proportional basis:

- No change for layers beneath £1m
- £1-2m layer reducing
- Higher frequencies for >£5m and >£2m

# Excess of Capped TPI Analysis

## Projected Ultimate Claims

Proportion of Ultimate Burning Cost in Layer



- An increasing proportion of the total cost now falls into the > £2m layers
- Claims > £1m now represent almost half of the cost of excess claims

---

# Excess of Capped TPI Analysis

## Analysis of Largest Claims

---

- Average incurred claim cost triangles were constructed for the following subsets of data:
  - Largest 2000 claims for each accident year
  - Largest 1000 claims for each accident year
  - Largest 200 claims for each accident year
  - Largest 200 claims for each accident year, excluding the largest 20
- By taking the largest n claims in each year, the intention is to consider injuries of similar severity to get a measure of inflation for large claims that is undistorted by an increasing frequency of small or mid-range claims or the indexation of thresholds.
- We show the annualised average increases of claim costs over several periods for each of the above subsets

# Excess of Capped TPI Analysis

## Analysis of Largest Claims

Claim severity triangle for Private Car Comprehensive (largest 200 claims per accident year)

Loss Year	Development Year (Figures in £000s)							
	1	2	3	4	5	6	7	8
2003	663	860	891	1,067	1,117	1,111	1,154	1,195
2004	817	1,007	1,121	1,201	1,222	1,316	1,345	
2005	628	955	996	1,122	1,208	1,248		
2006	758	1,067	1,283	1,399	1,538			
2007	603	1,176	1,384	1,463				
2008	1,008	1,468	1,602					
2009	1,190	1,929						
2010	1,060							
<b>Annualised Escalation Rates</b>								
<b>3 Year Periods</b>								
2003 - 2006	5%	7%	13%	9%	11%			
2004 - 2007	-10%	5%	7%	7%				
2005 - 2008	17%	15%	17%					
2006 - 2009	16%	<b>22%</b>						
2007 - 2010	<b>21%</b>							
<b>5 Year Periods</b>								
2003 - 2008	9%	11%	12%					
2004 - 2009	8%	14%						
2005 - 2010	11%							

- Escalation rates for the top 200 claims are generally higher than for the top 1000/2000 claims (where they were 7-10% and 7-13% respectively)

- Costs have increased particularly in 2008-10 and inflation rates have touched 20% in recent years

- The increasing prevalence of PPOs may be one of the drivers for this increase

---

# Excess of Capped TPI Analysis

## Analysis of Largest Claims

---

- Information on the largest 25 claims (by latest incurred value) for each accident year is also presented
- Latest incurred costs for the most recent years are likely to be under-developed
- In addition to listing the claims below, they are grouped into bands of £1m in size so that the distributions of the largest claims can be assessed by accident year.

# Excess of Capped TPI Analysis

## Analysis of Largest Claims

Private Car Comprehensive - Distribution of largest 25 claims by latest incurred

Accident Year	£2m - £3m	£3m - £4m	£4m - £5m	£5m - £6m	£6m - £7m	£7m - £8m	£8m - £9m	£9m - £10m	£10m+
2002	6	6	4	4	1	-	1	1	2
2003	11	4	1	7	1	-	-	-	1
2004	4	7	6	4	-	3	1	-	-
2005	10	6	3	3	2	-	1	-	-
2006	1	6	7	5	3	1	1	1	-
2007	9	4	6	1	1	-	1	2	1
2008	-	6	9	3	3	3	-	-	1
2009	-	-	10	8	4	2	-	1	-
2010	9	5	1	5	-	2	2	1	-

- In 2008 the 25<sup>th</sup> largest claim exceeds £3m for the first time.
- In 2009 the 25<sup>th</sup> largest claim is over £4m
- In 2010, 9 of the top 25 claims are currently estimated at below £3m, which is very out of line with 2008 and 2009, but it may be that estimates for 2010 are very under-developed and will grow over time
- The largest claim in each year has been over £8m, with four years including claims costing more than £10m

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# Excess of Capped TPI Analysis

## Adequacy of Case Estimates

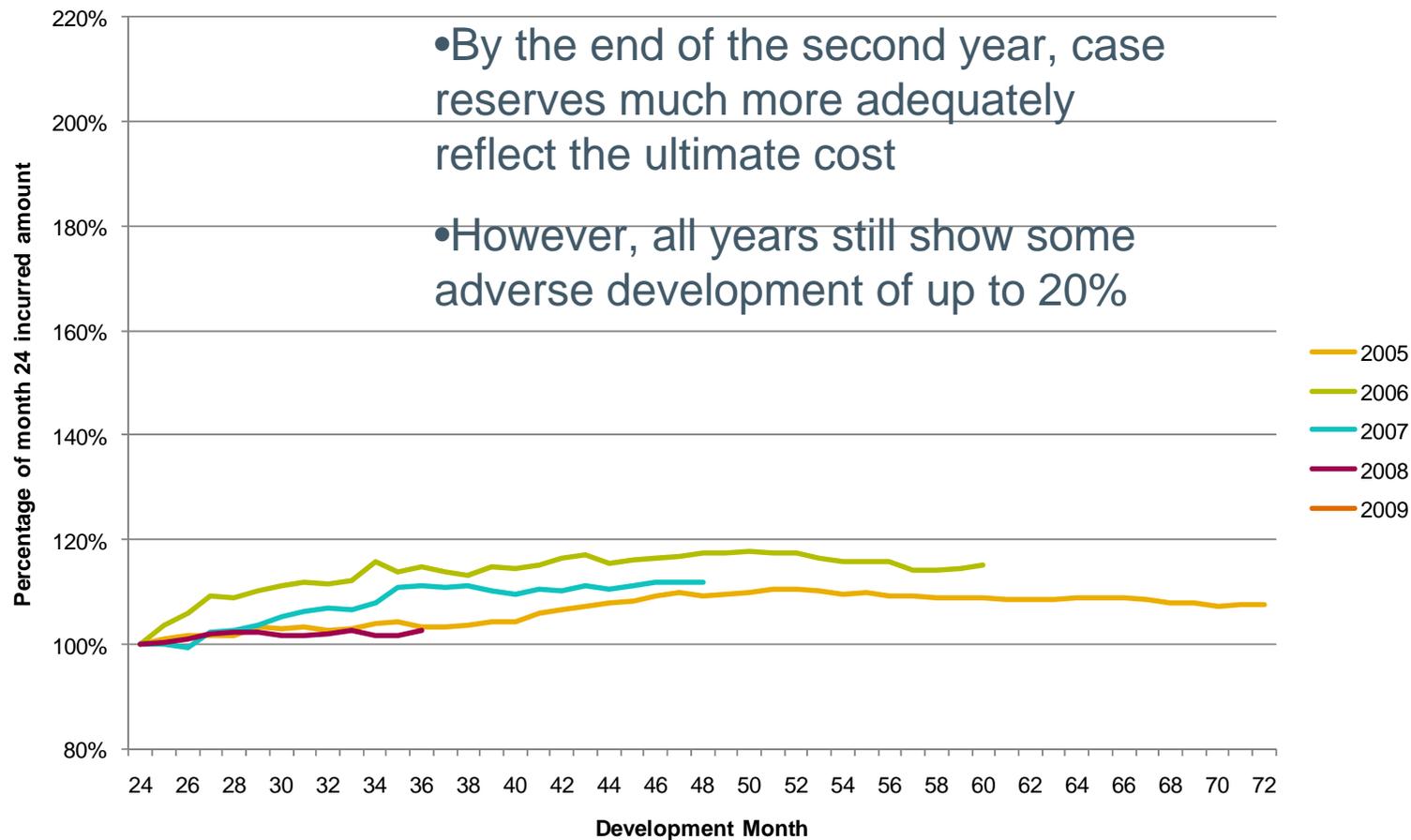
---

- We extracted claims from the data which had been reported before the end of development year one, and tracked their further incurred development relative to the year one position
- This removes the effect of IBNR claims, allowing the impact of IBNER to the deterioration of claims experience to be separately assessed
- An element of IBNER may be the identification of additional claimants on claims already reported
- The calculation is then repeated using development year two to obtain a view of incurred development relative to the year two position.
- We show here only development beyond year 2

# Excess of Capped TPI Analysis

## Adequacy of Case Estimates

### Incurred development relative to month 24 (IBNER only)

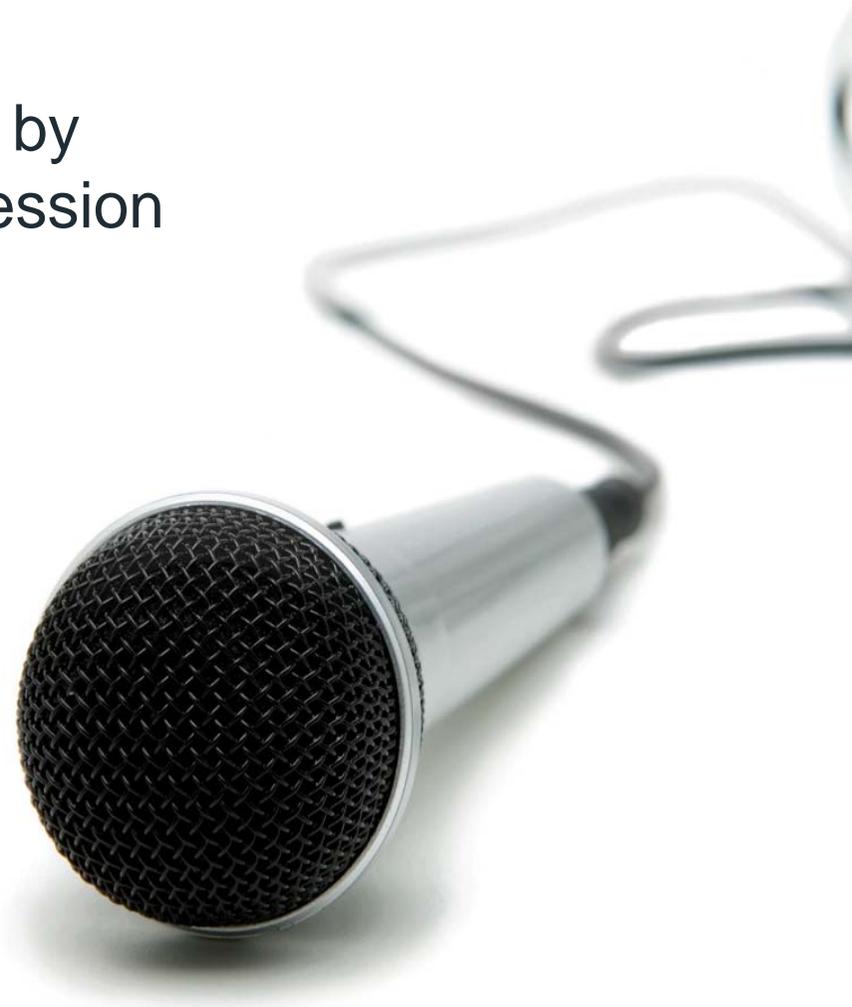


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## Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



  
**The Actuarial Profession**  
making financial sense of the future

## Third Party Working Party Appendices



• 12 October 2011

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# Appendices

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1. Raw output from Working Party, including more granular results on large claims analysis
2. Slides from Pricing Seminar



**The Actuarial Profession**  
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## Update from the Third Party Working Party

### Raw outputs from Working Party



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  - Analyses of Largest Claims
  - Adequacy of Case Estimates

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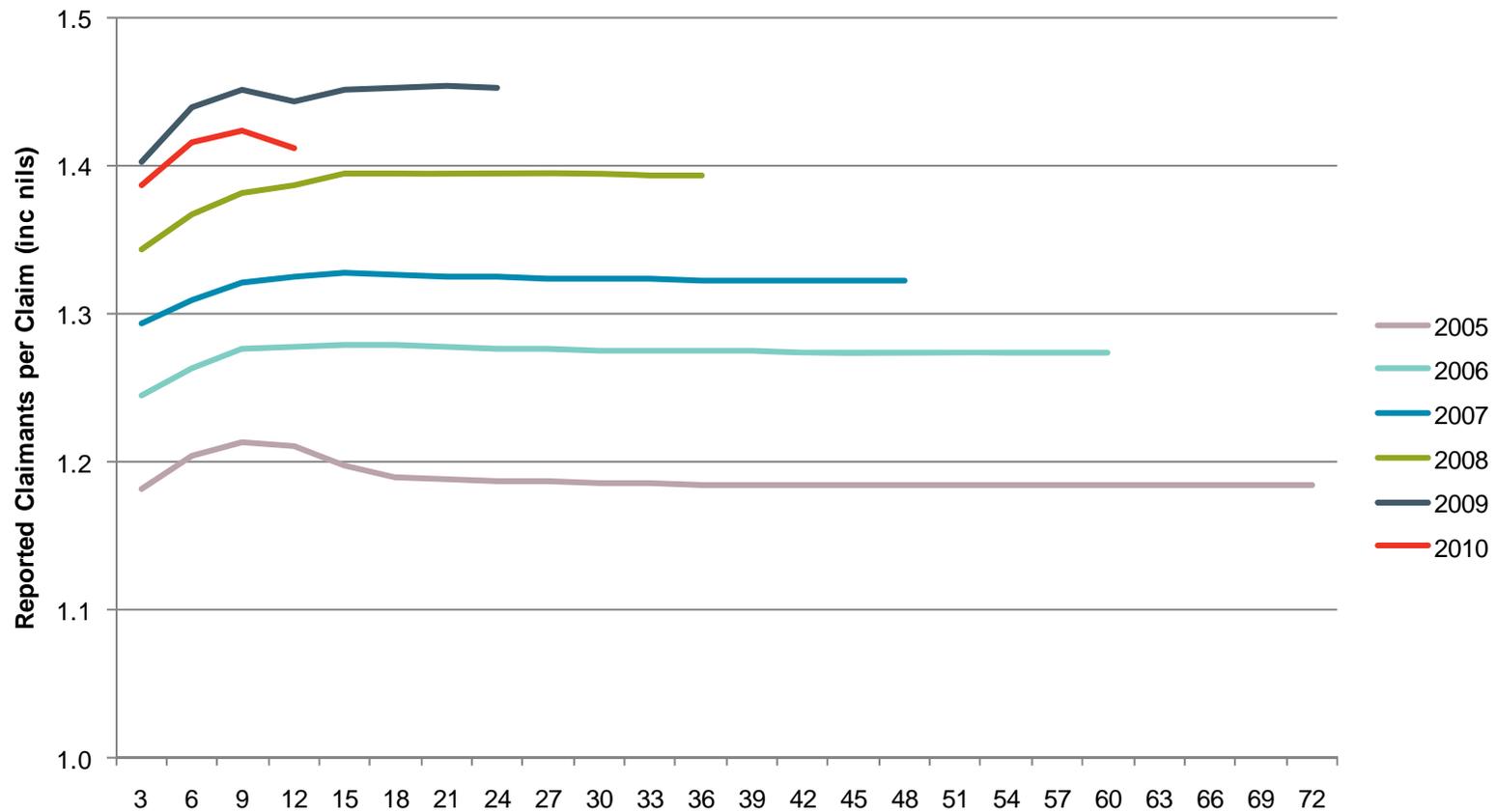
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# Private Car Comprehensive

## Reported claimants per claim

### Private Car Comp - All Distribution Channels - TPI Capped

Reported Claimants per Claim (inc nils)



Development month

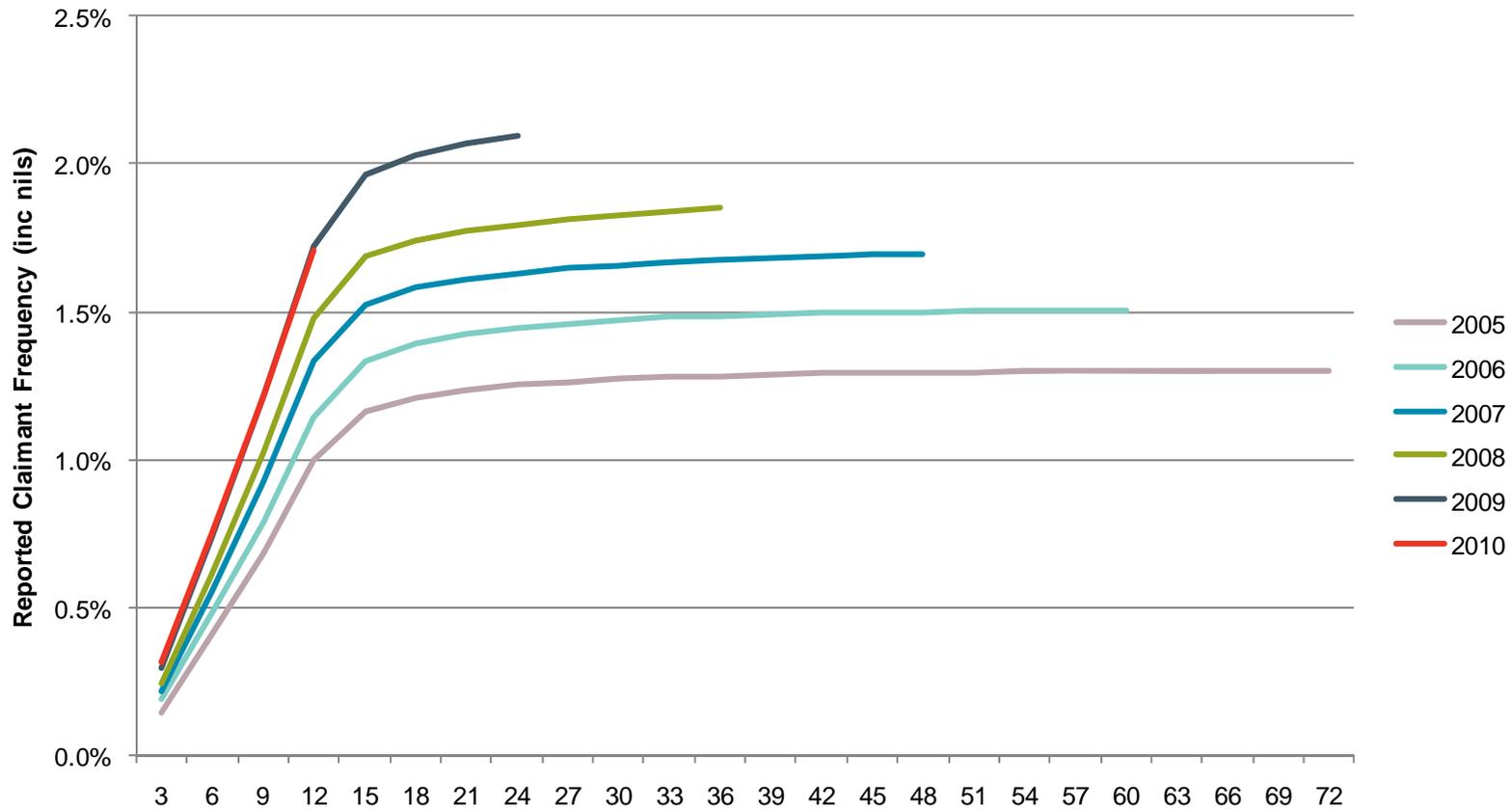
Inflation Rates

09-10: -2.2% 08-09: 4.1% 07-08: 5.3% 06-07: 3.8% 05-06: 7.6%

# Private Car Comprehensive

## Reported claimant frequency

**Private Car Comp - All Distribution Channels - TPI Capped**  
Reported Claimant Frequency (inc nils)



**Inflation Rates**  
09-10: -0.7% 08-09: 16.7% 07-08: 10.3% 06-07: 12.9% 05-06: 15.7%

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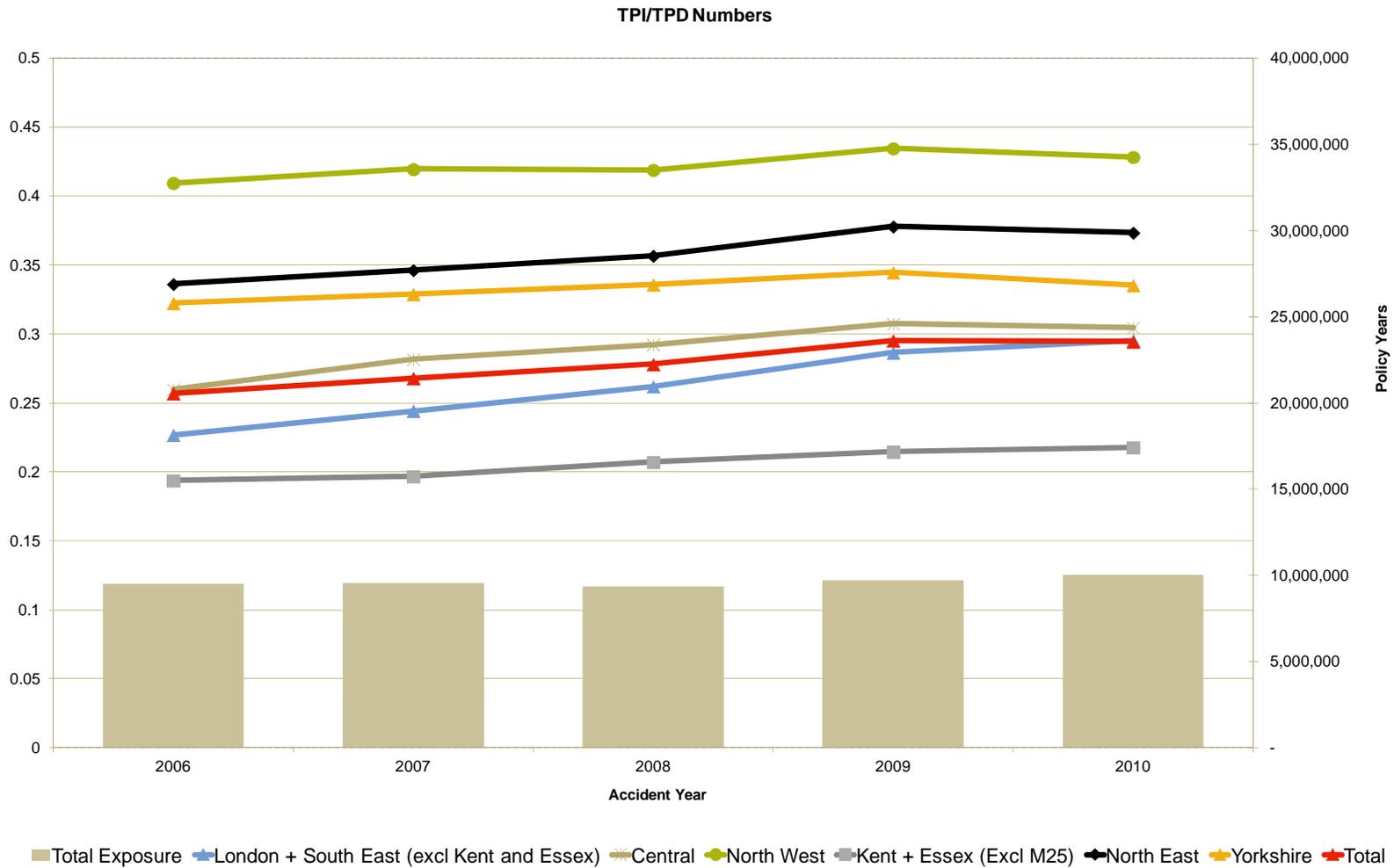
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# Private Car Comprehensive Experience by TV Region

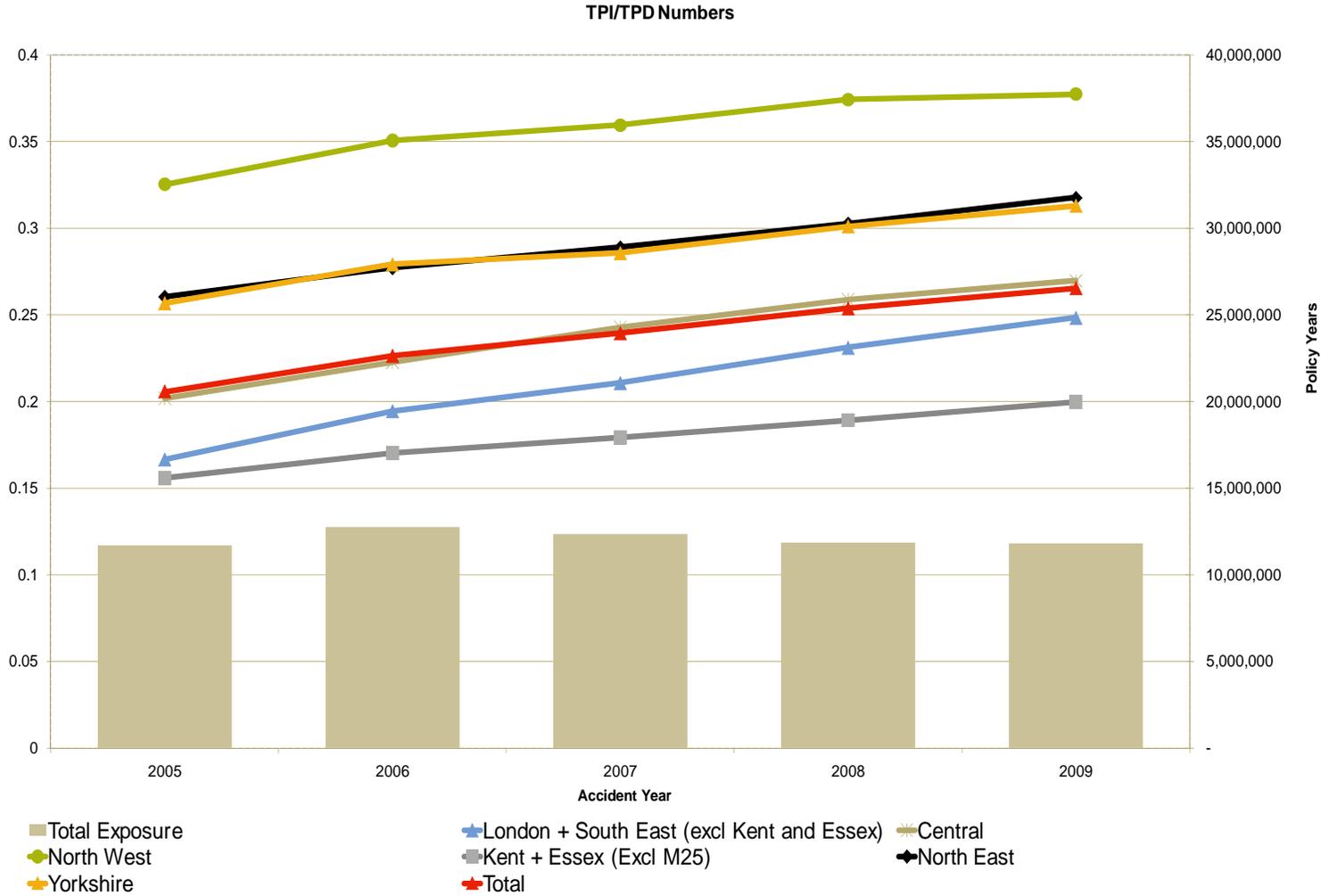
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- Latest reported claim numbers and incurred claim amounts were provided split by geographic region
- These data were aggregated and a set of industry statistics produced that shows how key statistics vary by location in the UK
- These statistics are based on latest positions (ie on claim information excluding any estimate for IBNR or IBNER claims or amounts) which should be considered when interpreting any results
- The analysis was restricted to Private Car Comprehensive due to insufficient quantities of data in other lines of business
- Some differences in absolute level of KPIs compared with last year's analyses are present
- These differences are caused by there being a different basket of contributing companies this year
- Relative trends generally reinforce the trends identified last year.

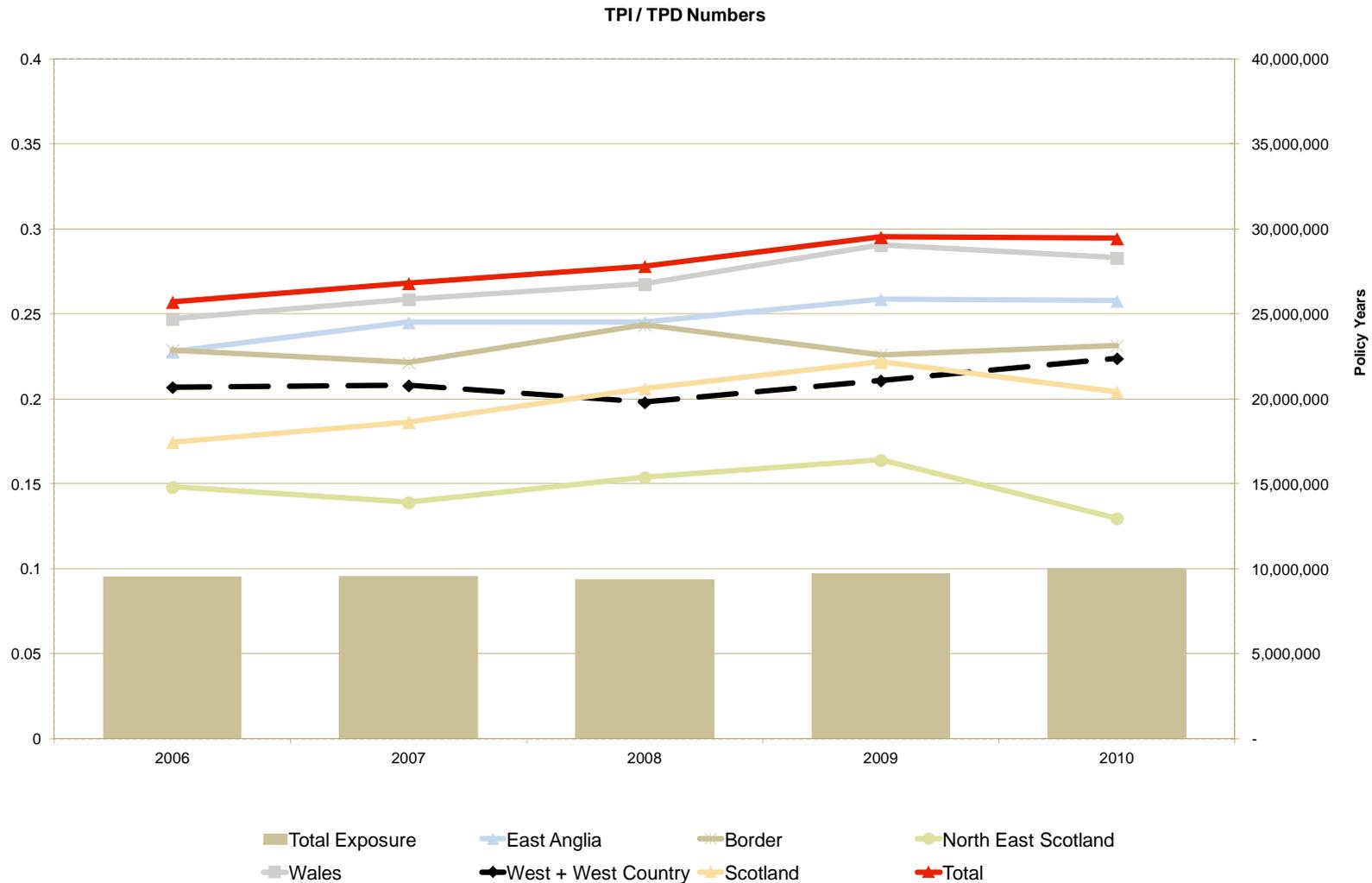
# TPI / TPD numbers by TV region (Private Car Comprehensive)



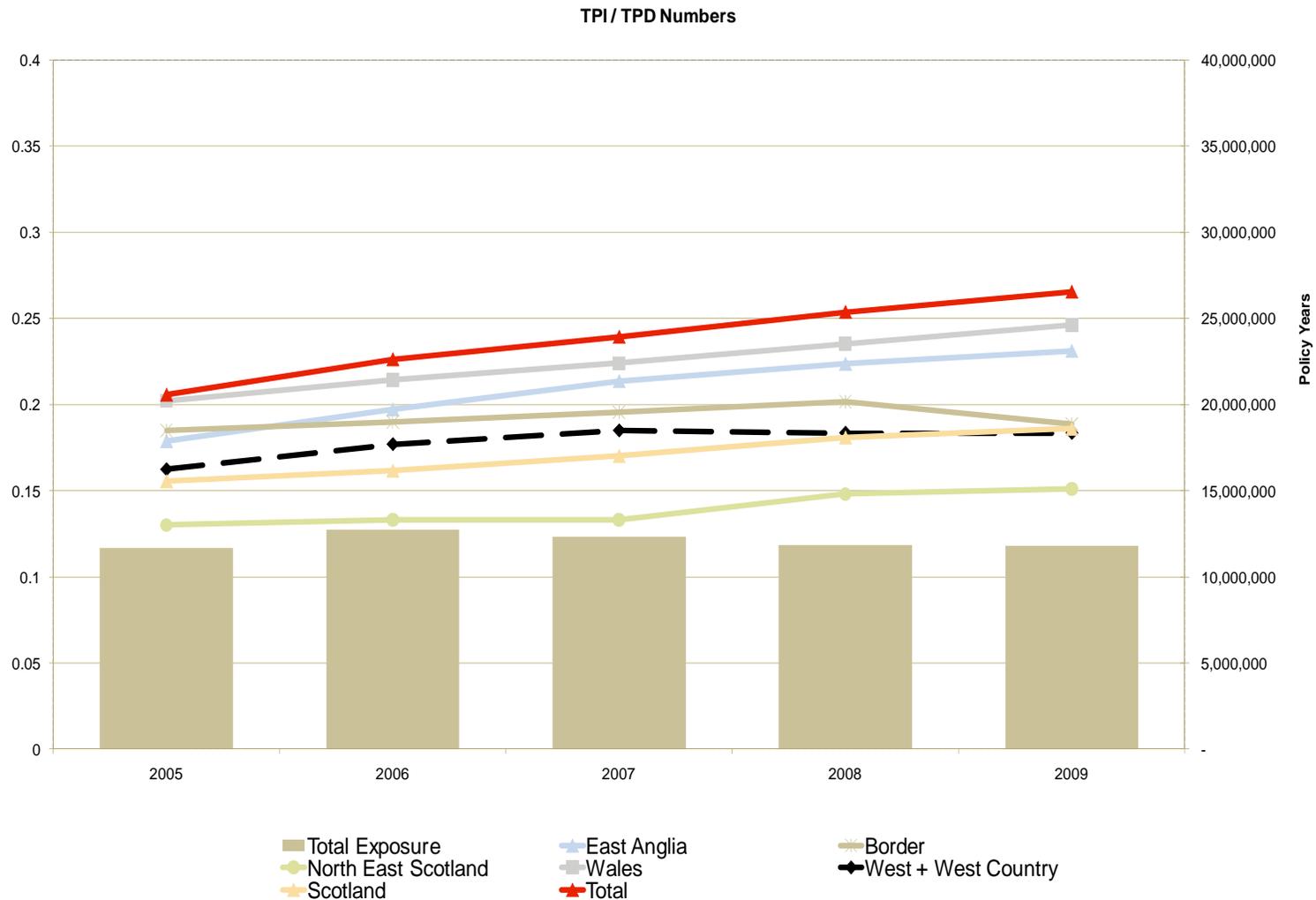
# TPI / TPD numbers by TV region (Private Car Comprehensive) – 2010 analysis for comparison



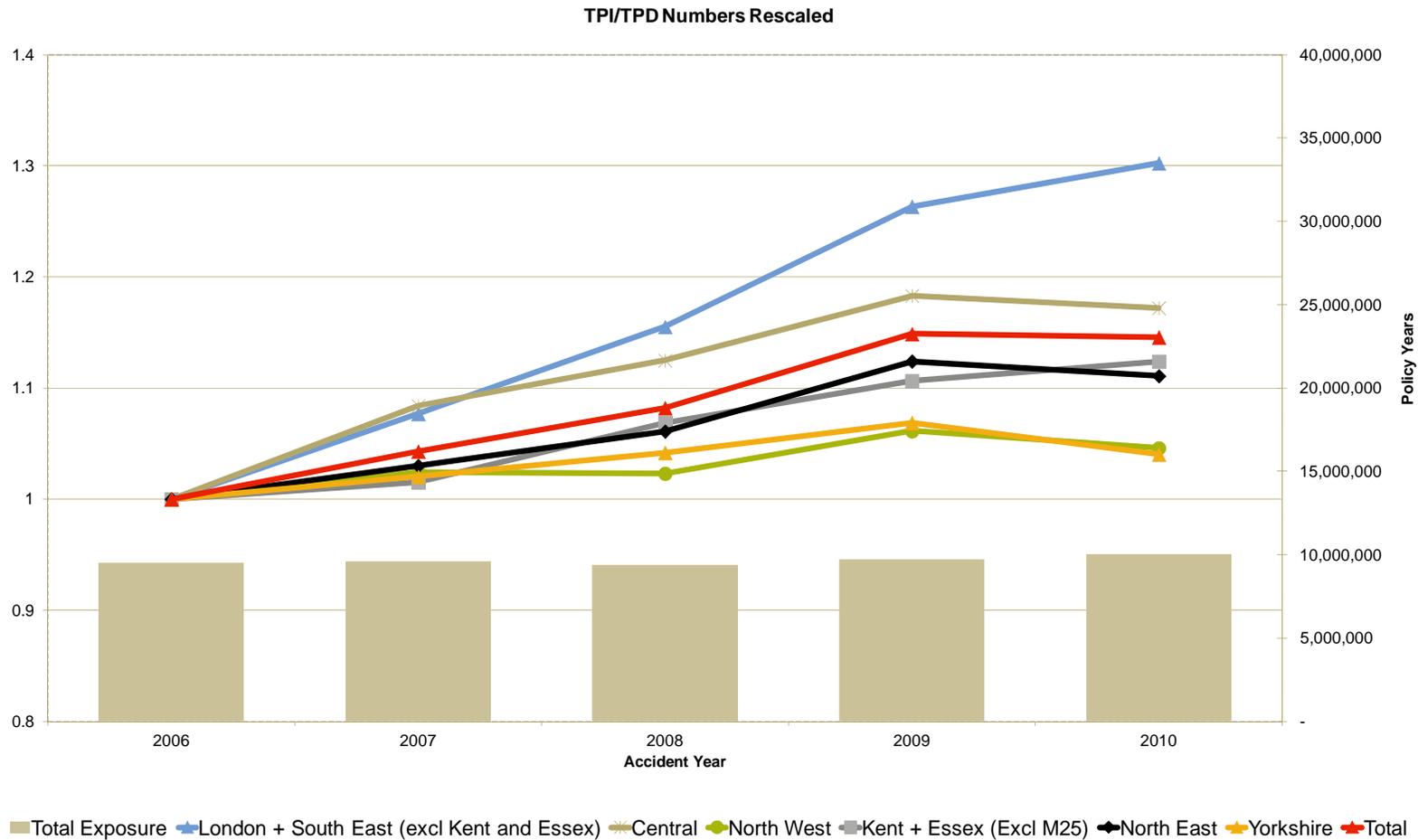
# TPI / TPD numbers by TV region (Private Car Comprehensive)



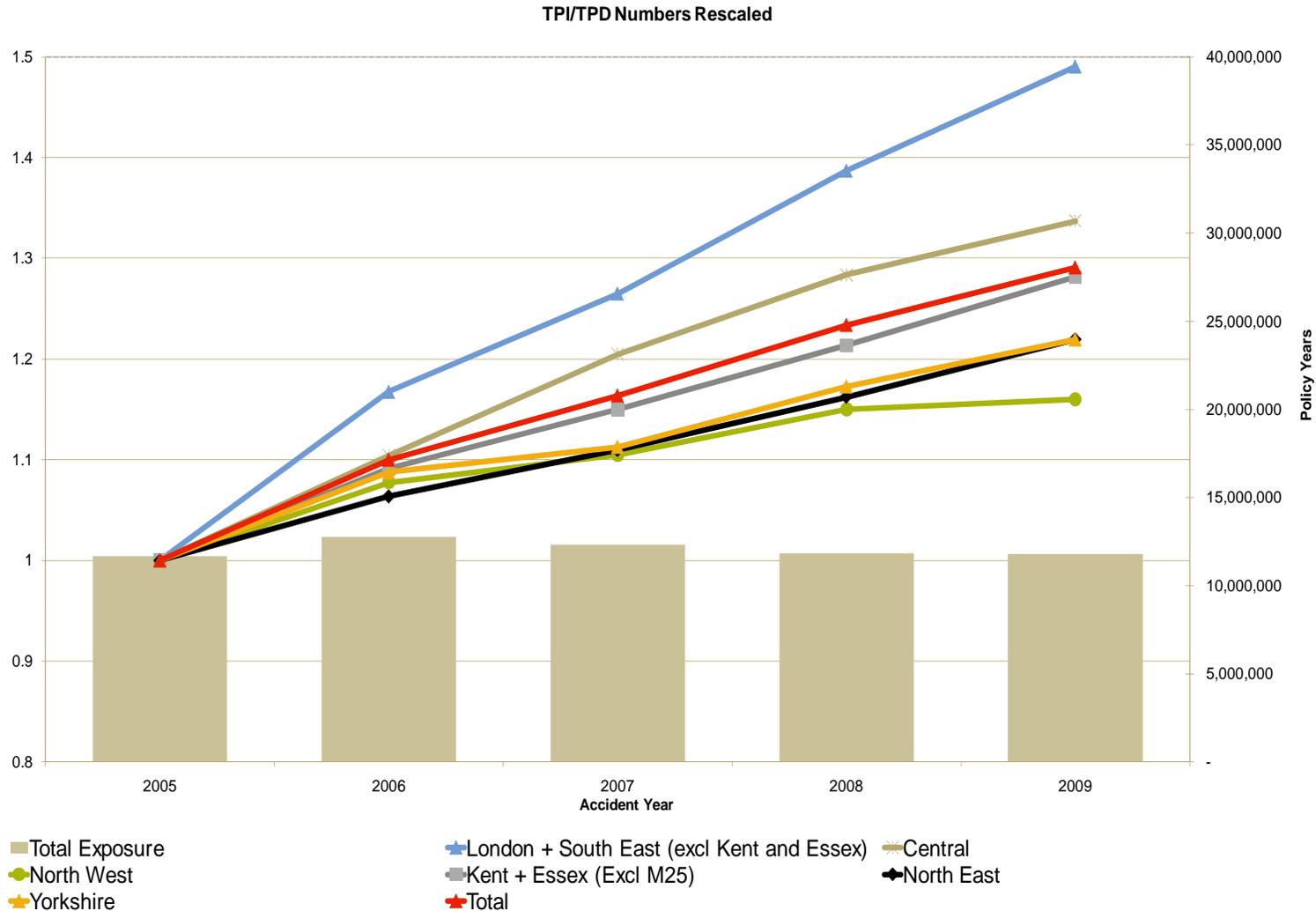
# TPI / TPD numbers by TV region (Private Car Comprehensive) – 2010 analysis for comparison



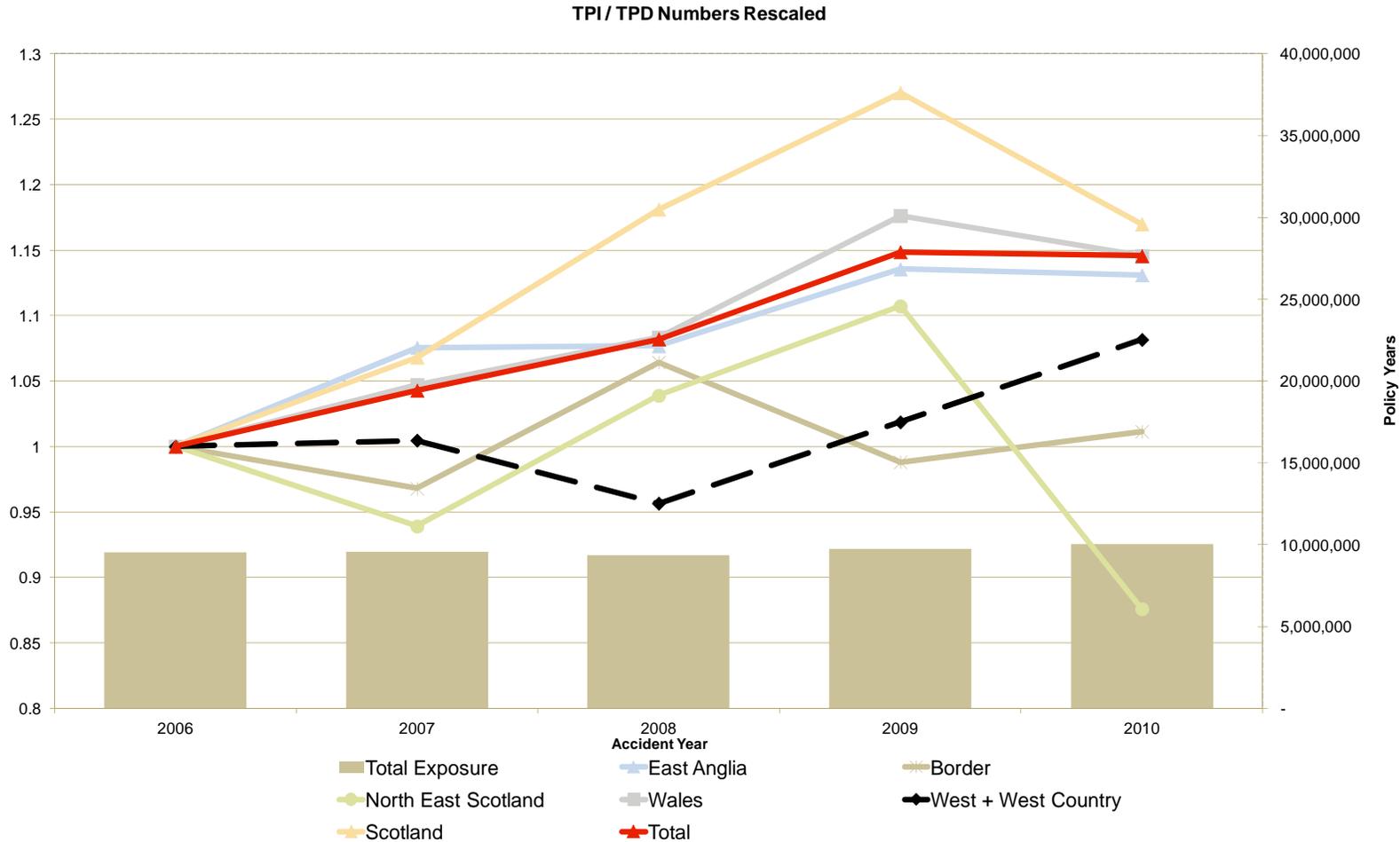
# Change in TPI / TPD Numbers (Private Car Comprehensive)



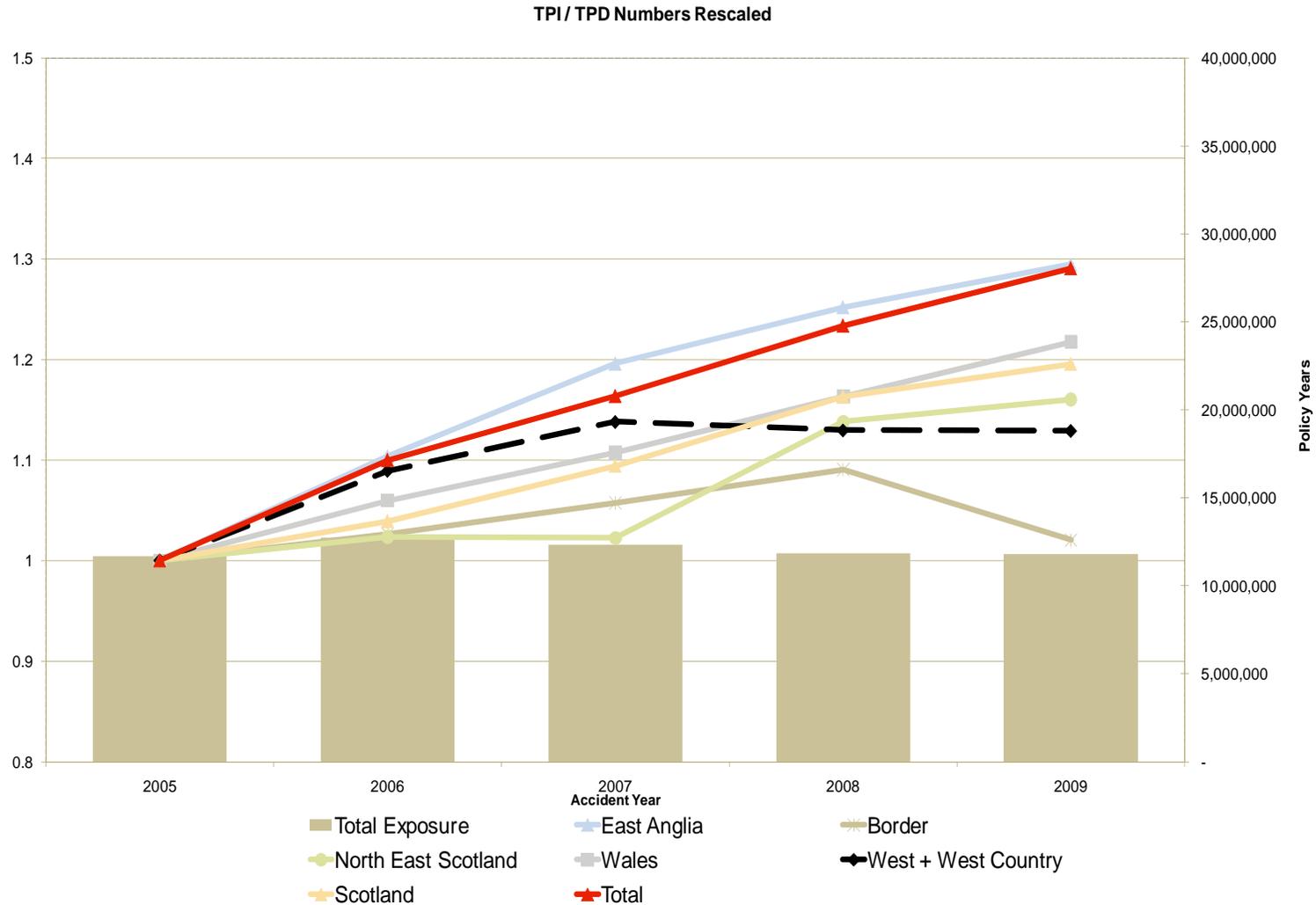
# Change in TPI / TPD Numbers (Private Car Comprehensive) – 2010 analysis for comparison



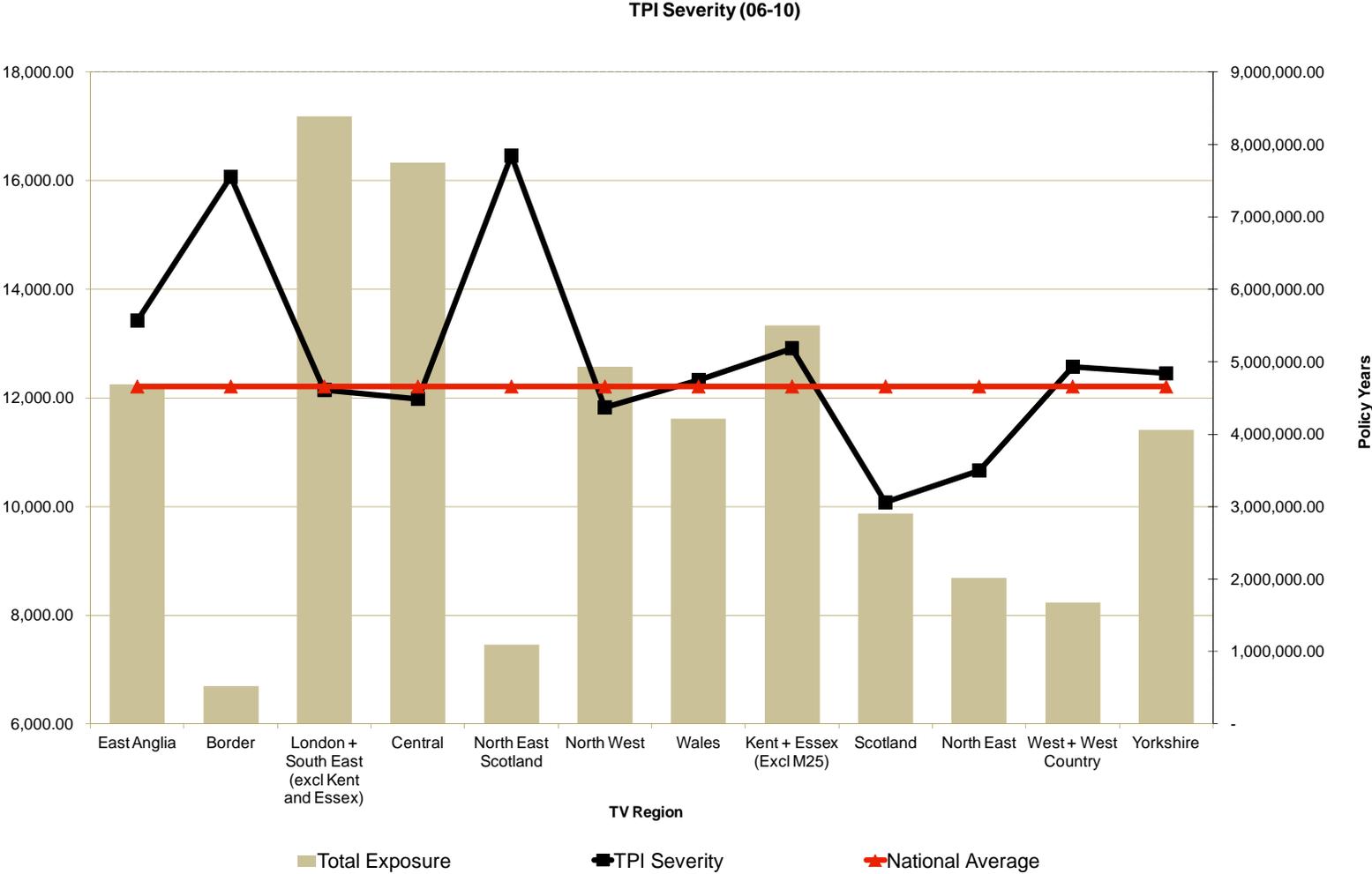
# Change in TPI / TPD Numbers (Private Car Comprehensive)



# Change in TPI / TPD Numbers (Private Car Comprehensive) – 2010 analysis for comparison

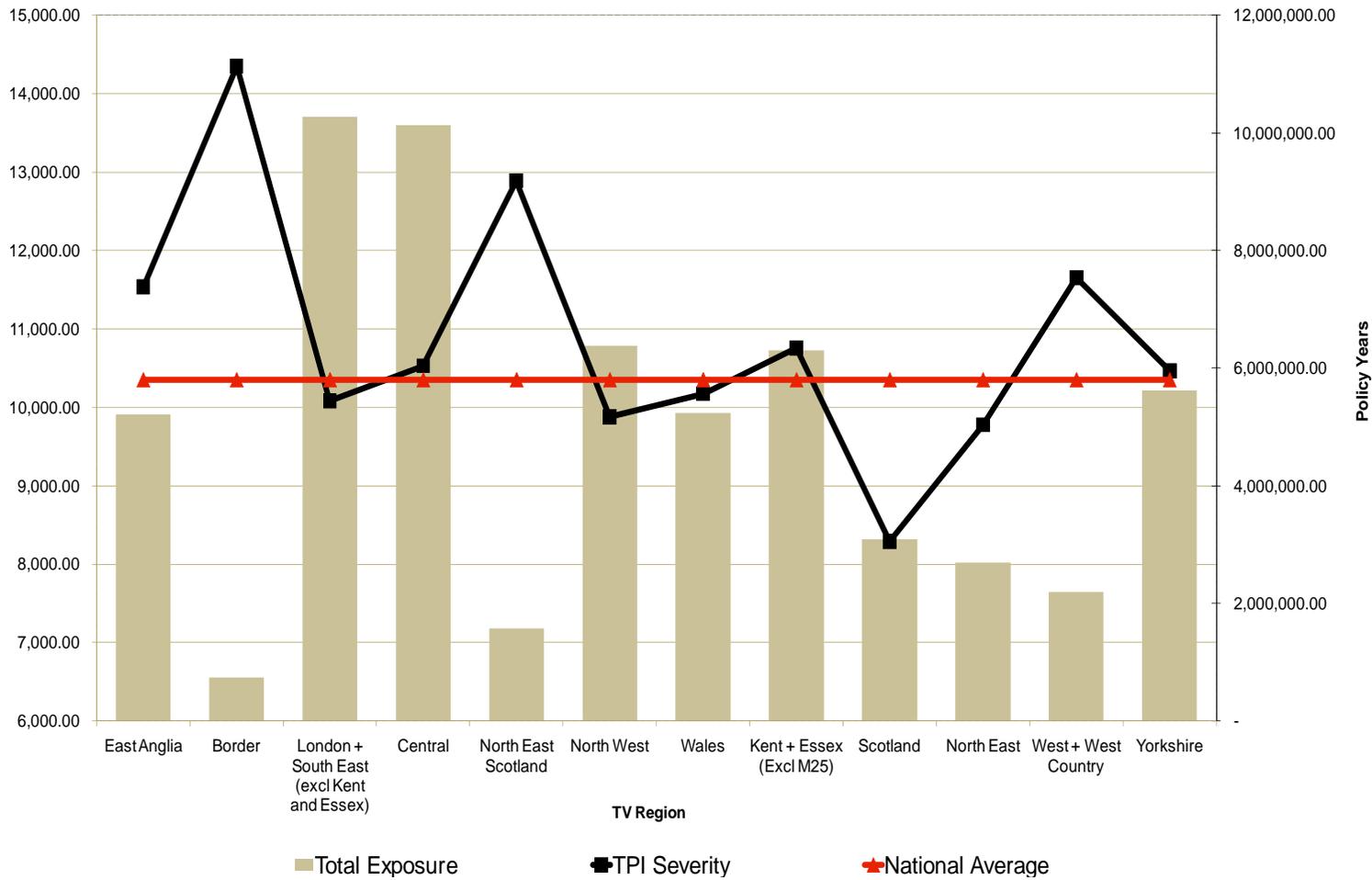


# Third Party Injury average cost by TV region (Private Car Comprehensive)

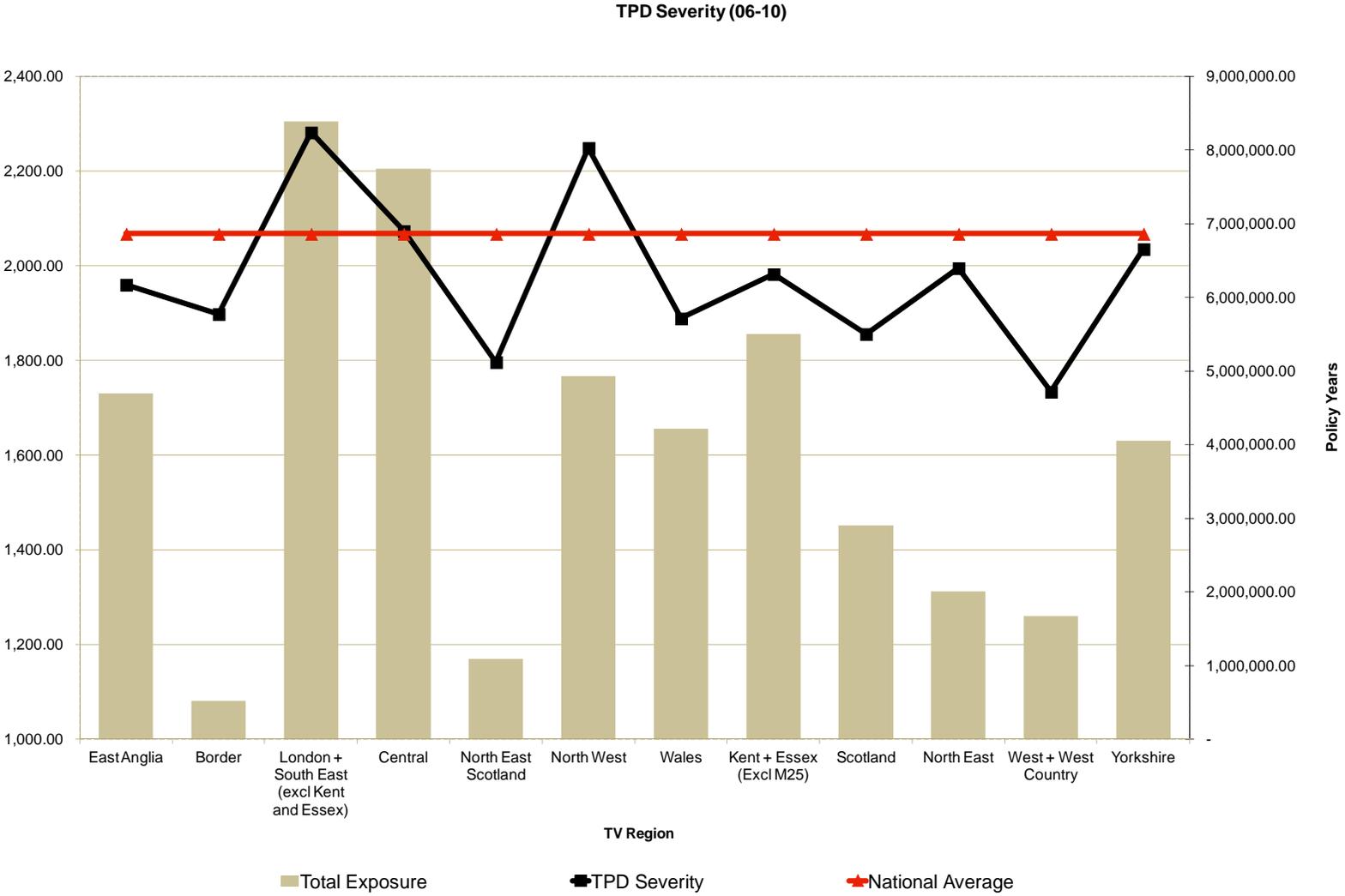


# Third Party Injury average cost by TV region (Private Car Comprehensive) – 2010 analysis for comparison

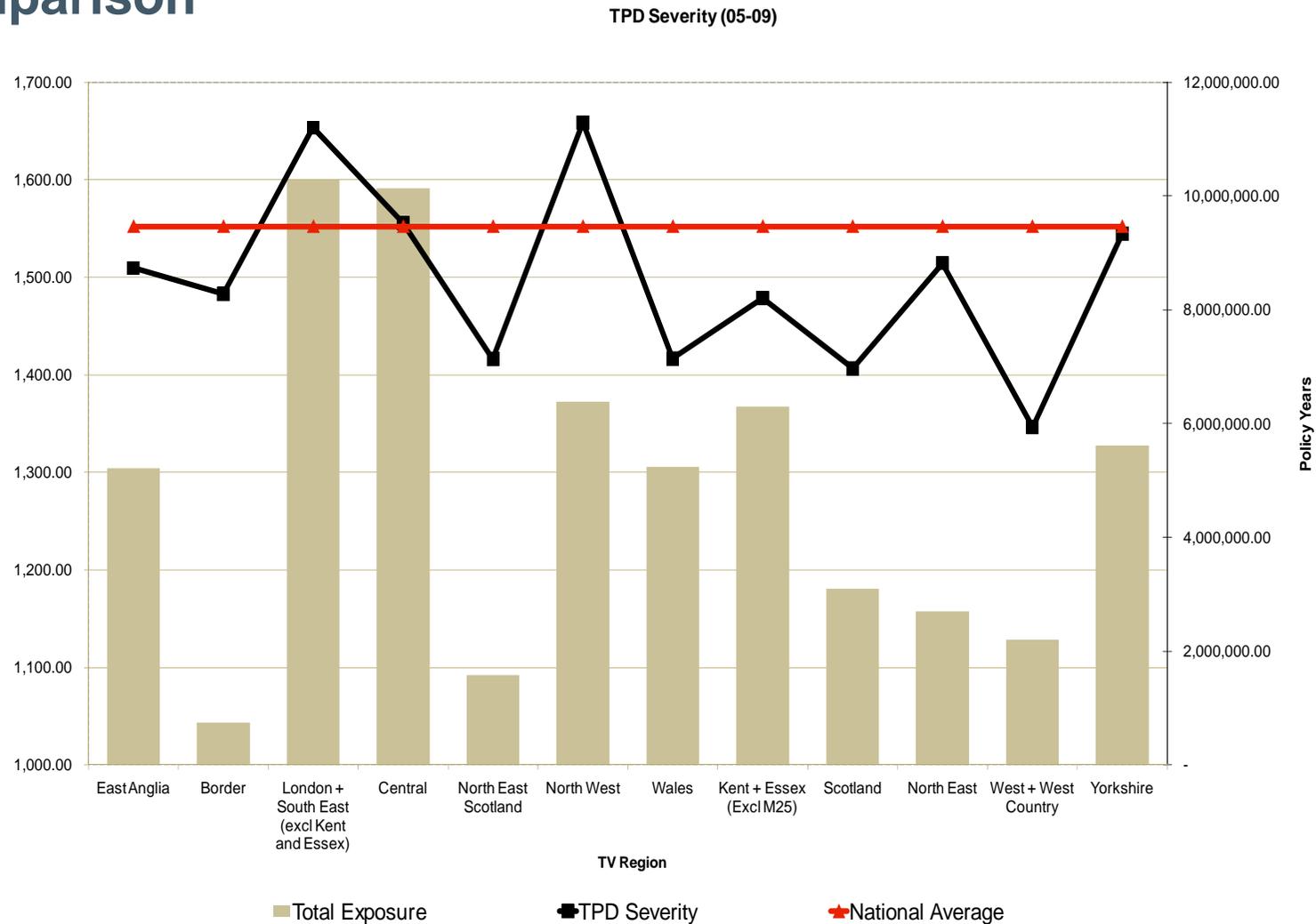
TPI Severity (05-09)



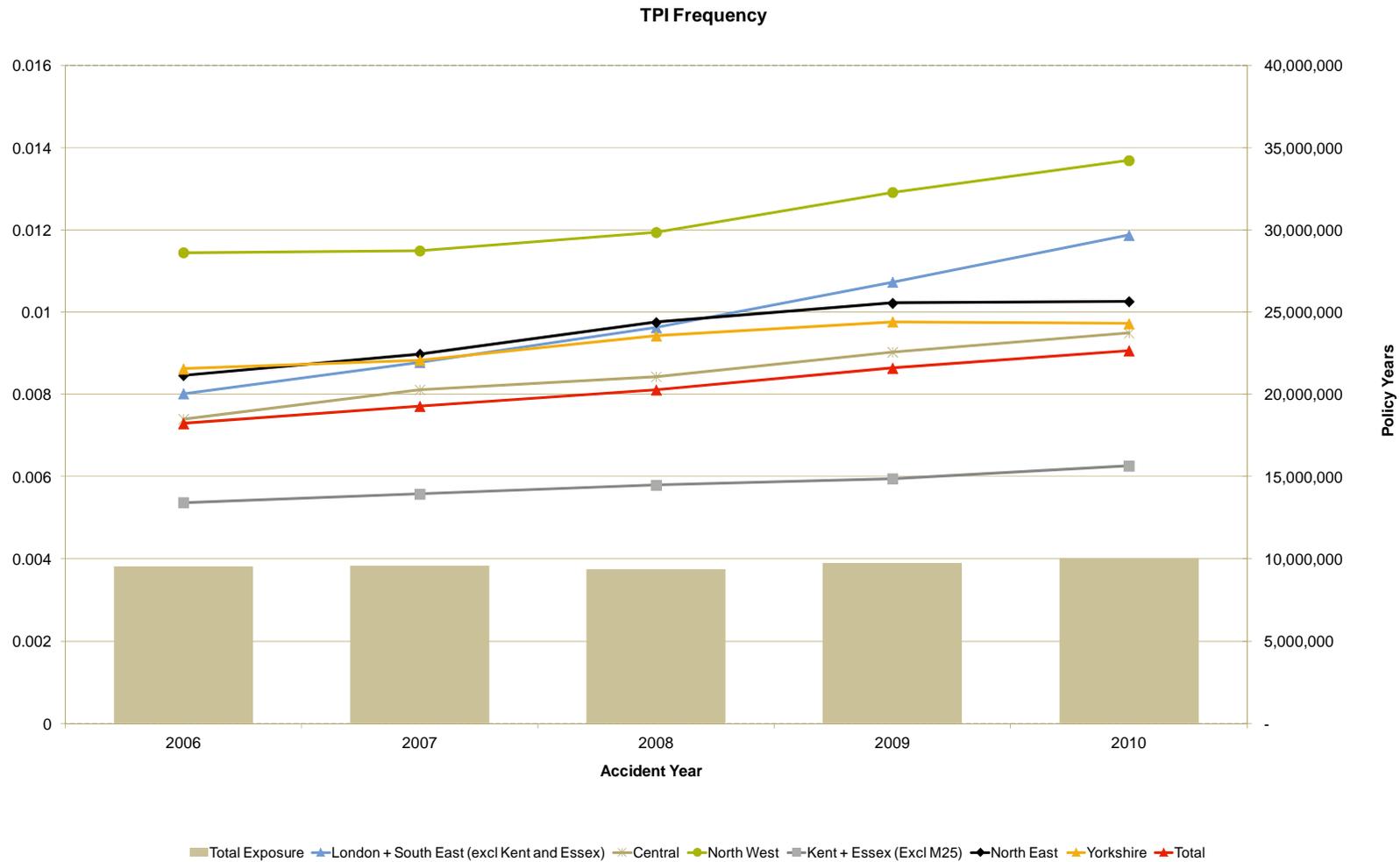
# Third Party Damage average cost by TV region (Private Car Comprehensive)



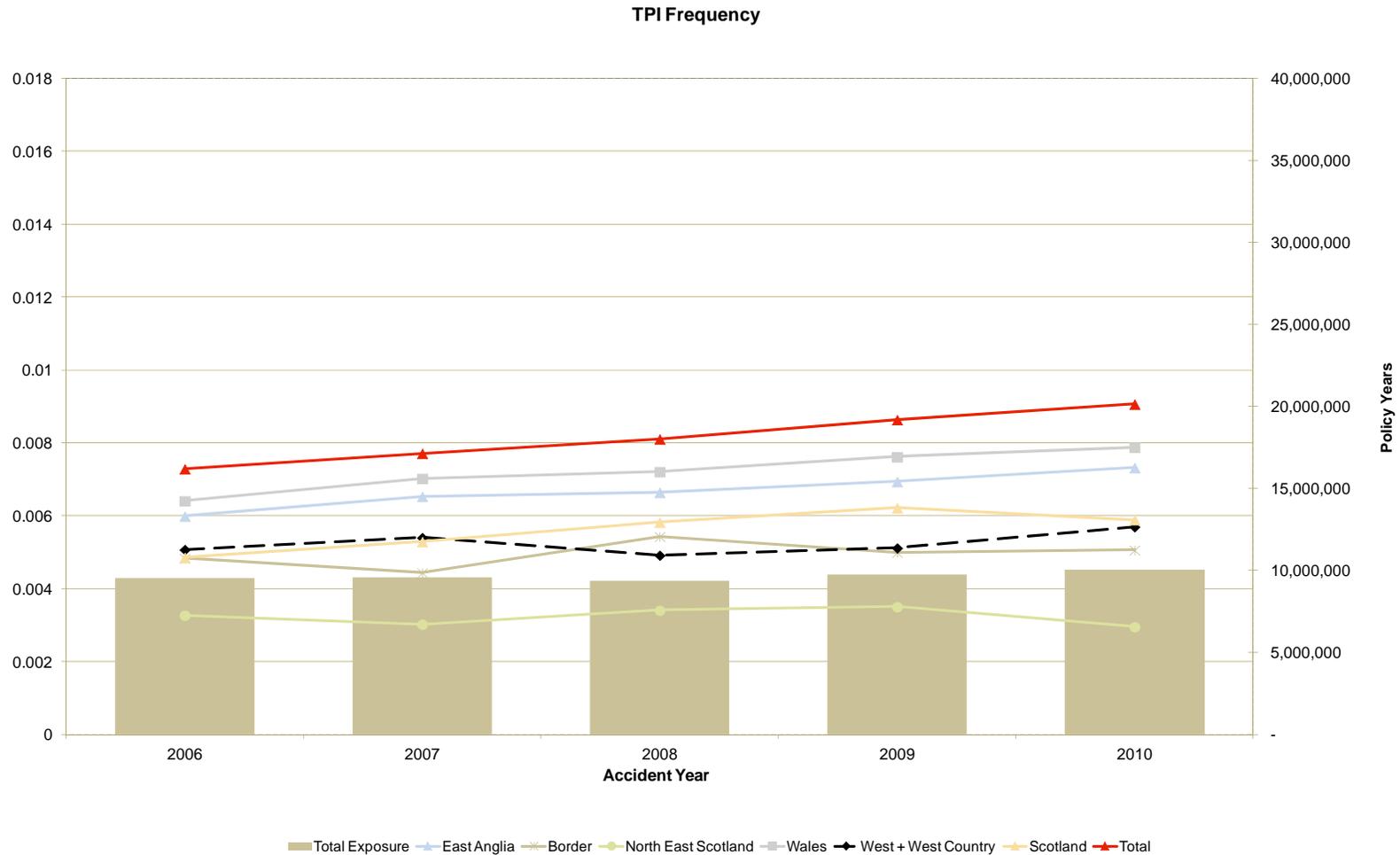
# Third Party Damage average cost by TV region (Private Car Comprehensive) – 2010 analysis for comparison



# TPI Frequency by TV region (Private Car Comprehensive)



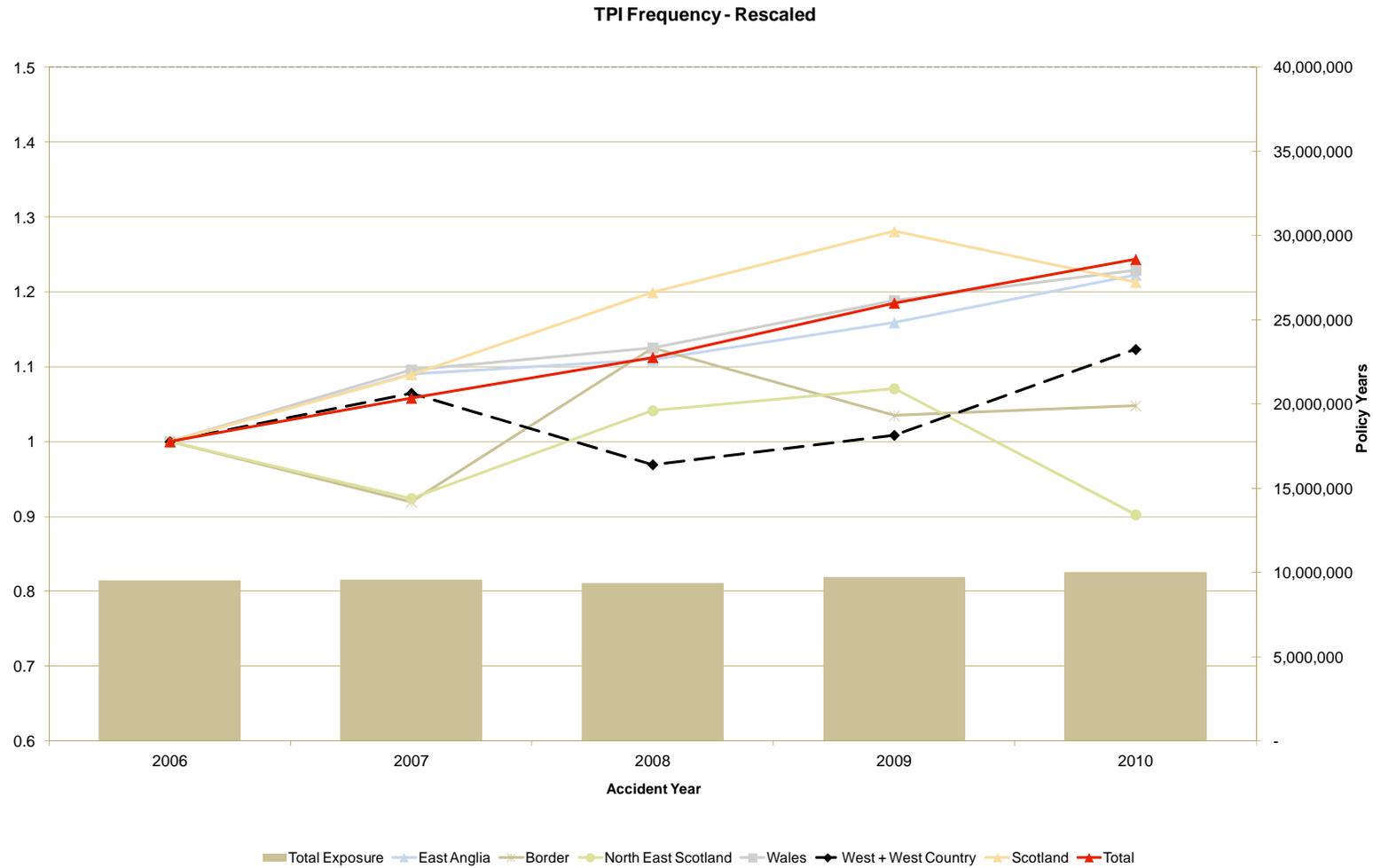
# TPI Frequency by TV region (Private Car Comprehensive)



# TPI Frequency by TV region (Private Car Comprehensive)



# TPI Frequency by TV region (Private Car Comprehensive)



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## Notes to Accident Year Triangles

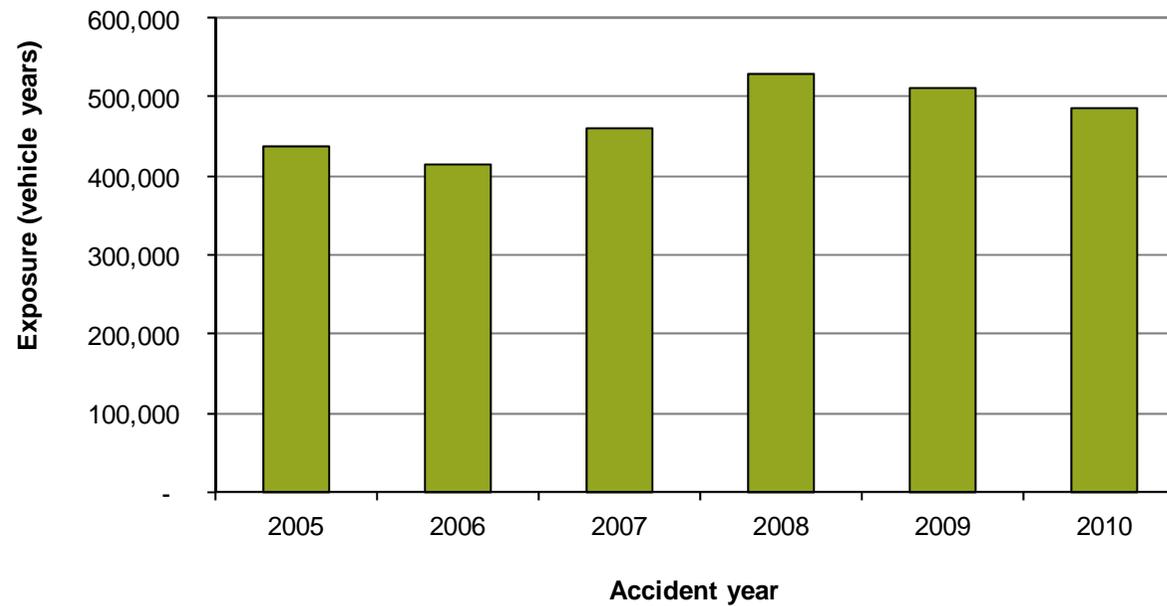
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- Most of the graphs show industry accident year triangulation progressions
- This facilitates the comparison of experience on a “like-for-like” basis (at least in relation to development)
- Inflation rates shown are the latest point in the year compared to the previous accident year at the same point in development

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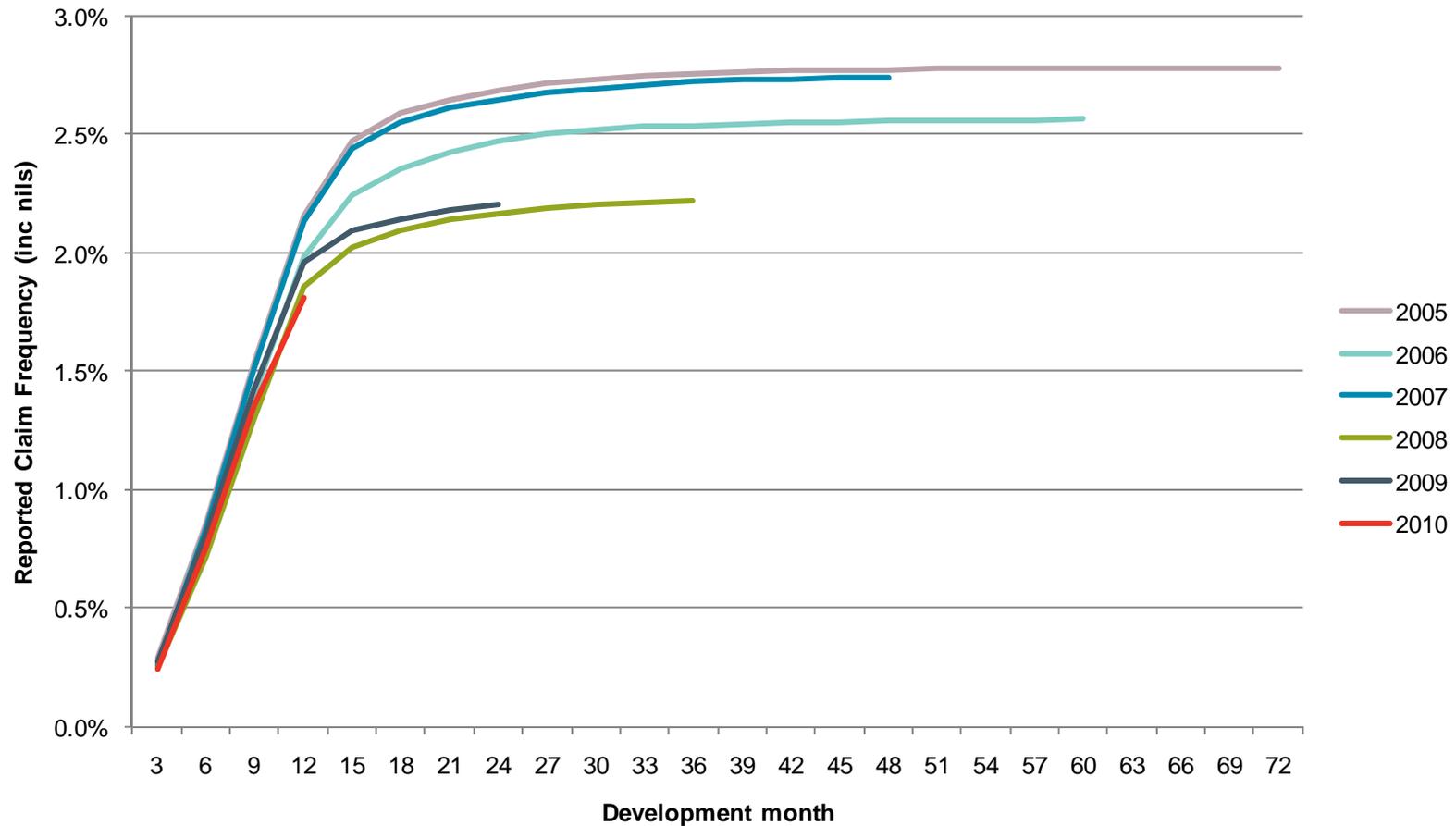
# Motorcycle exposure

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# Motorcycle

**Motorcycle - All Distribution Channels - TPD**  
Reported Claim Frequency (inc nils)

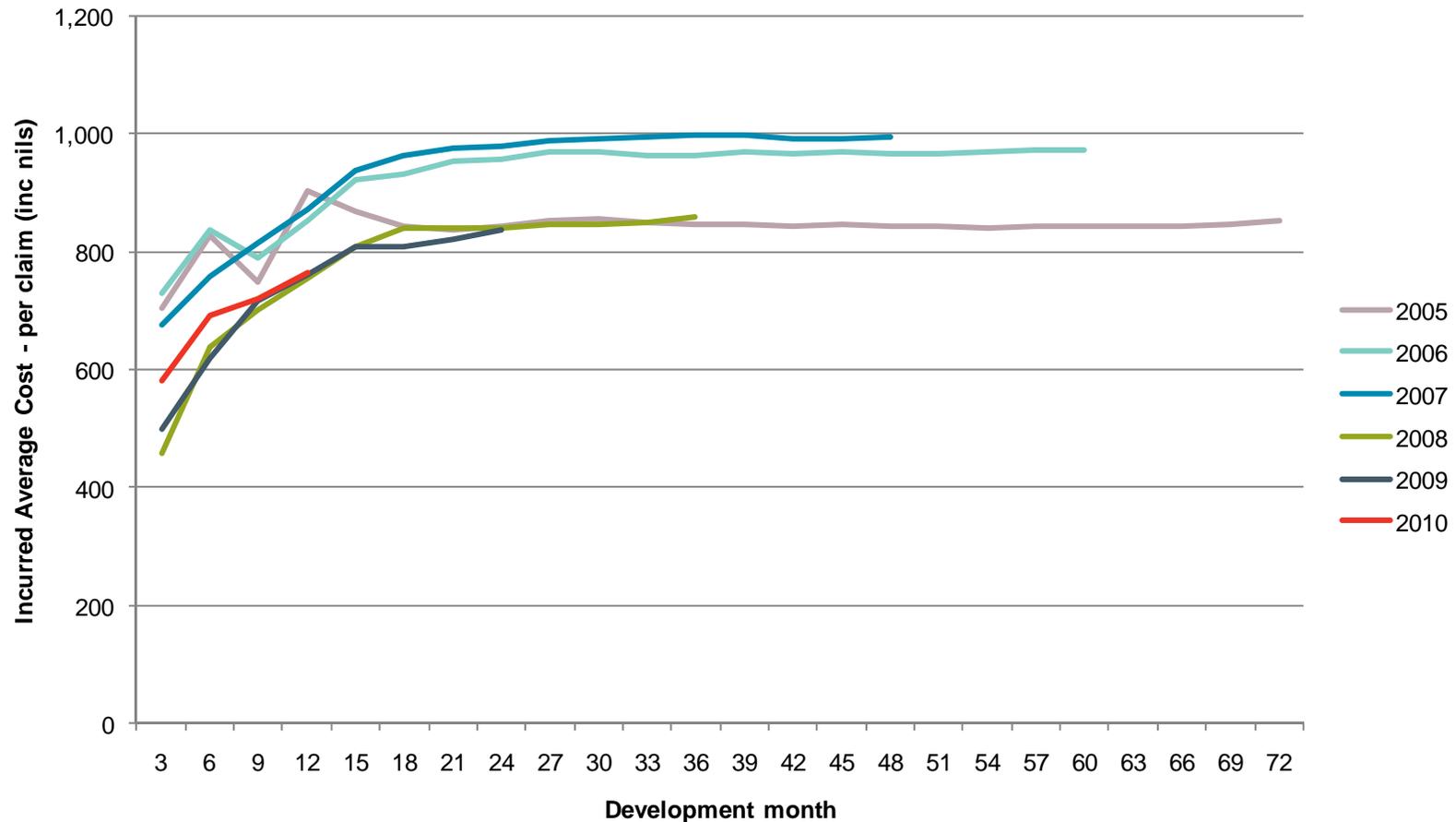


**Inflation Rates**  
09-10: -7.7% 08-09: 1.8% 07-08: -18.5% 06-07: 7.2% 05-06: -7.8%

# Motorcycle

## Motorcycle - All Distribution Channels - TPD

Incurred Average Cost - per claim (inc nils)



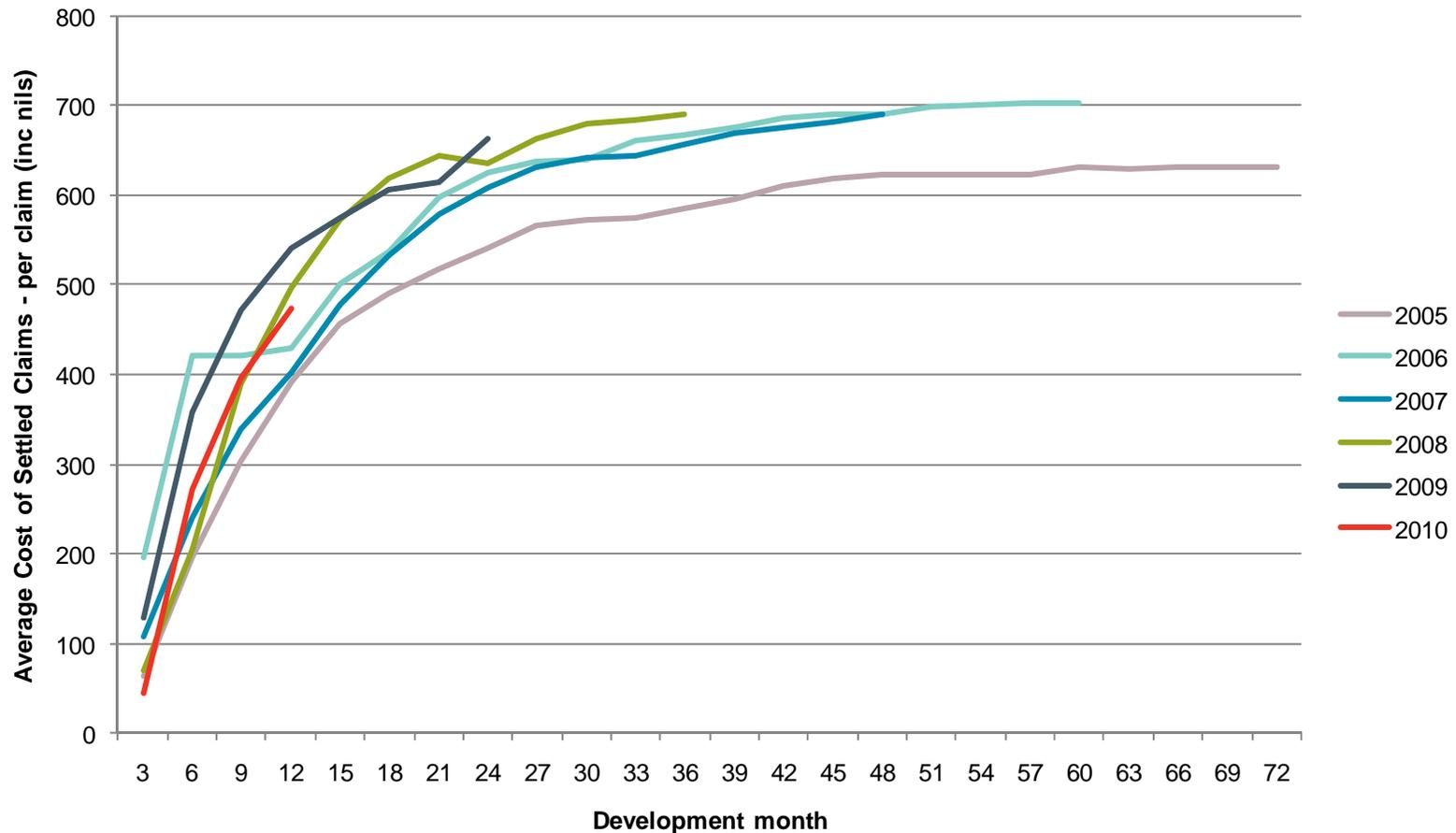
NB: Source data treated for data errors

### Inflation Rates

09-10: 0.3% 08-09: -0.2% 07-08: -13.9% 06-07: 2.9% 05-06: 15.3%

# Motorcycle

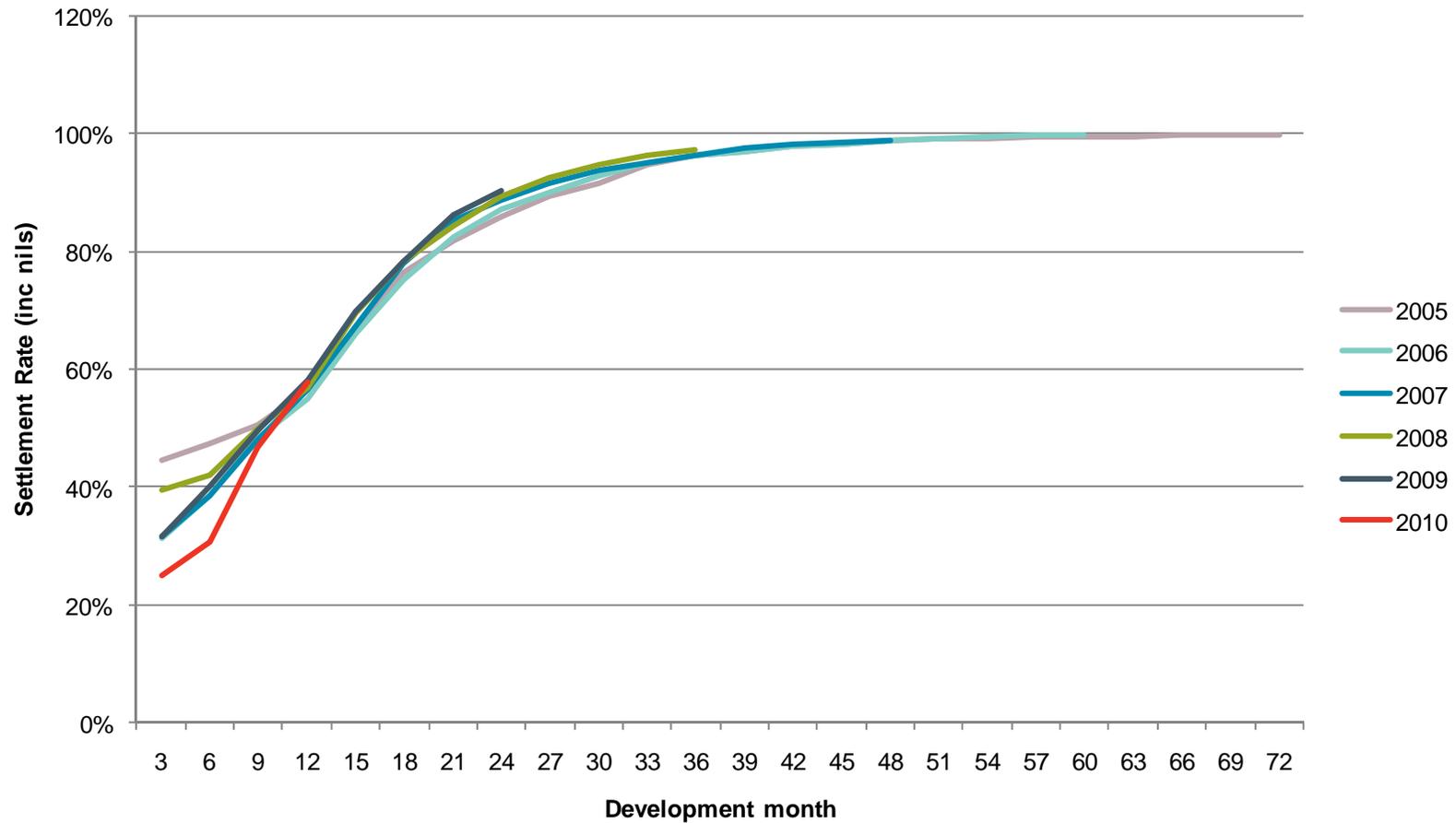
**Motorcycle - All Distribution Channels - TPD**  
Average Cost of Settled Claims - per claim (inc nils)



**Inflation Rates**  
09-10: -12.5% 08-09: 4.2% 07-08: 5.1% 06-07: -0.1% 05-06: 11.6%

# Motorcycle

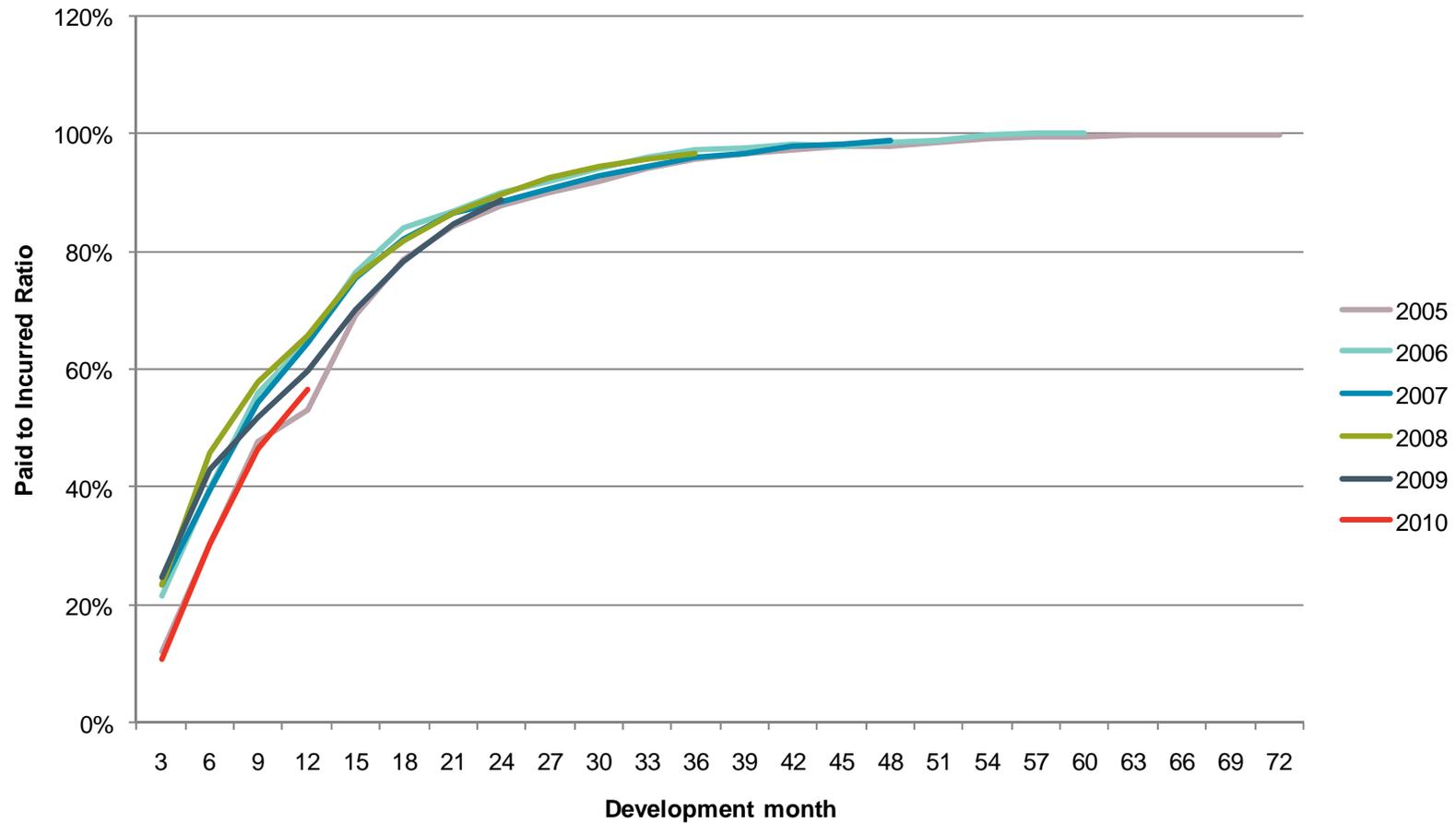
**Motorcycle - All Distribution Channels - TPD**  
Settlement Rate (inc nils)



**Inflation Rates**  
09-10: -0.2% 08-09: 1.1% 07-08: 0.8% 06-07: 0.1% 05-06: 0.2%

# Motorcycle

**Motorcycle - All Distribution Channels - TPD**  
Paid to Incurred Ratio



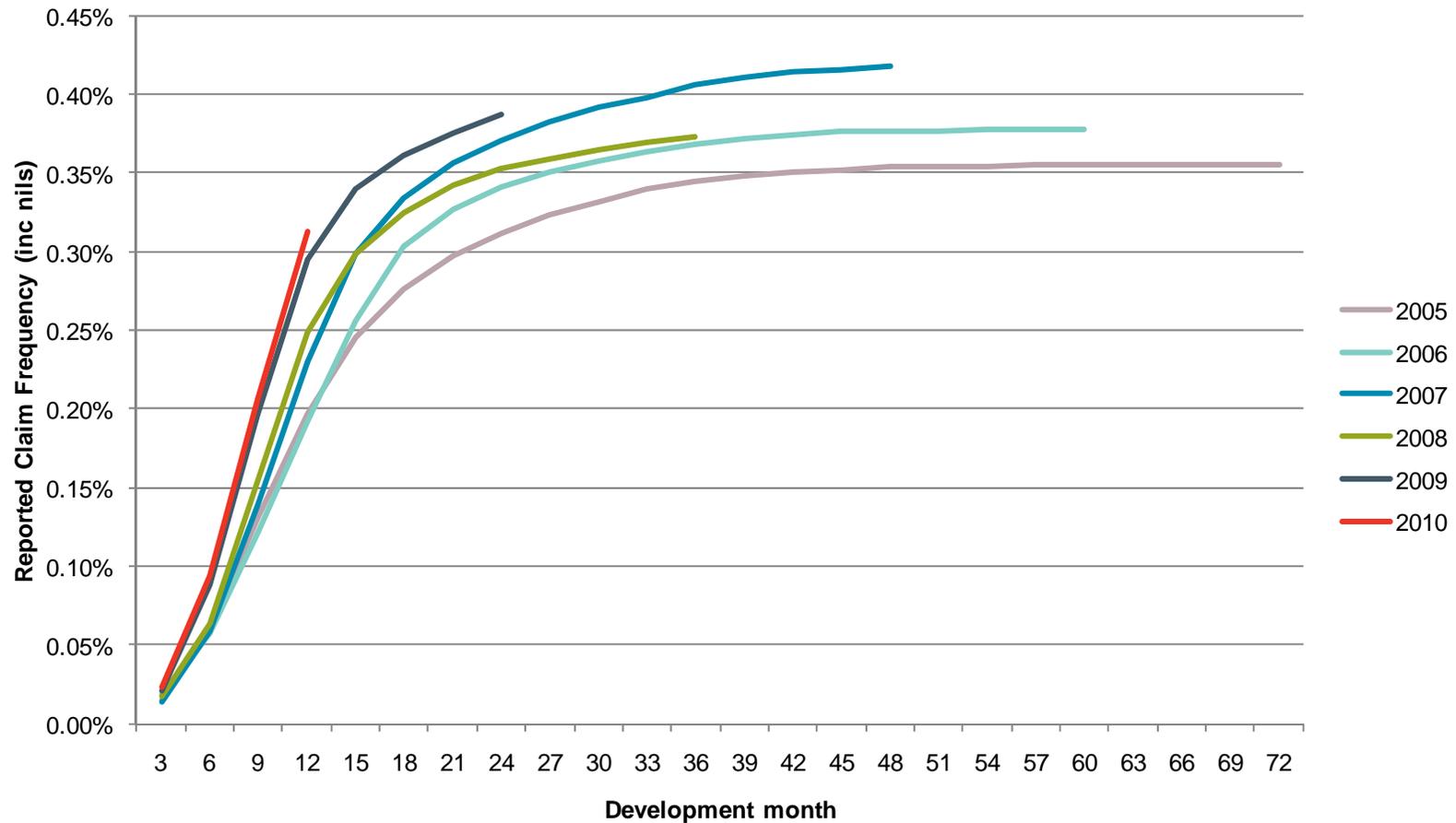
NB: Source data treated for data errors

**Inflation Rates**

09-10: -5.3% 08-09: -1.1% 07-08: 0.8% 06-07: 0.3% 05-06: 0.6%

# Motorcycle

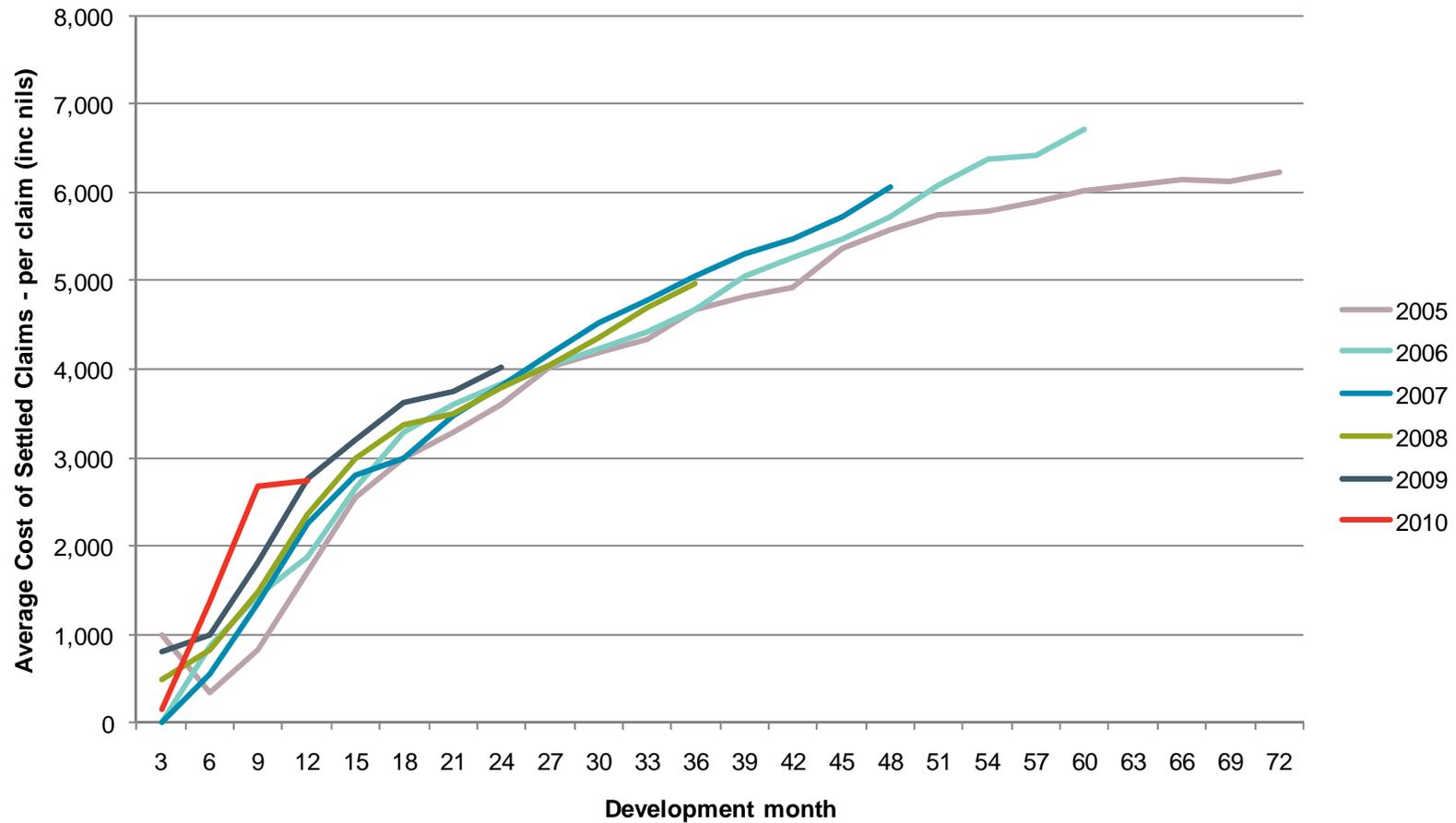
**Motorcycle - All Distribution Channels - TPI Capped**  
Reported Claim Frequency (inc nils)



**Inflation Rates**  
09-10: 5.9% 08-09: 10% 07-08: -8.3% 06-07: 10.9% 05-06: 6.5%

# Motorcycle

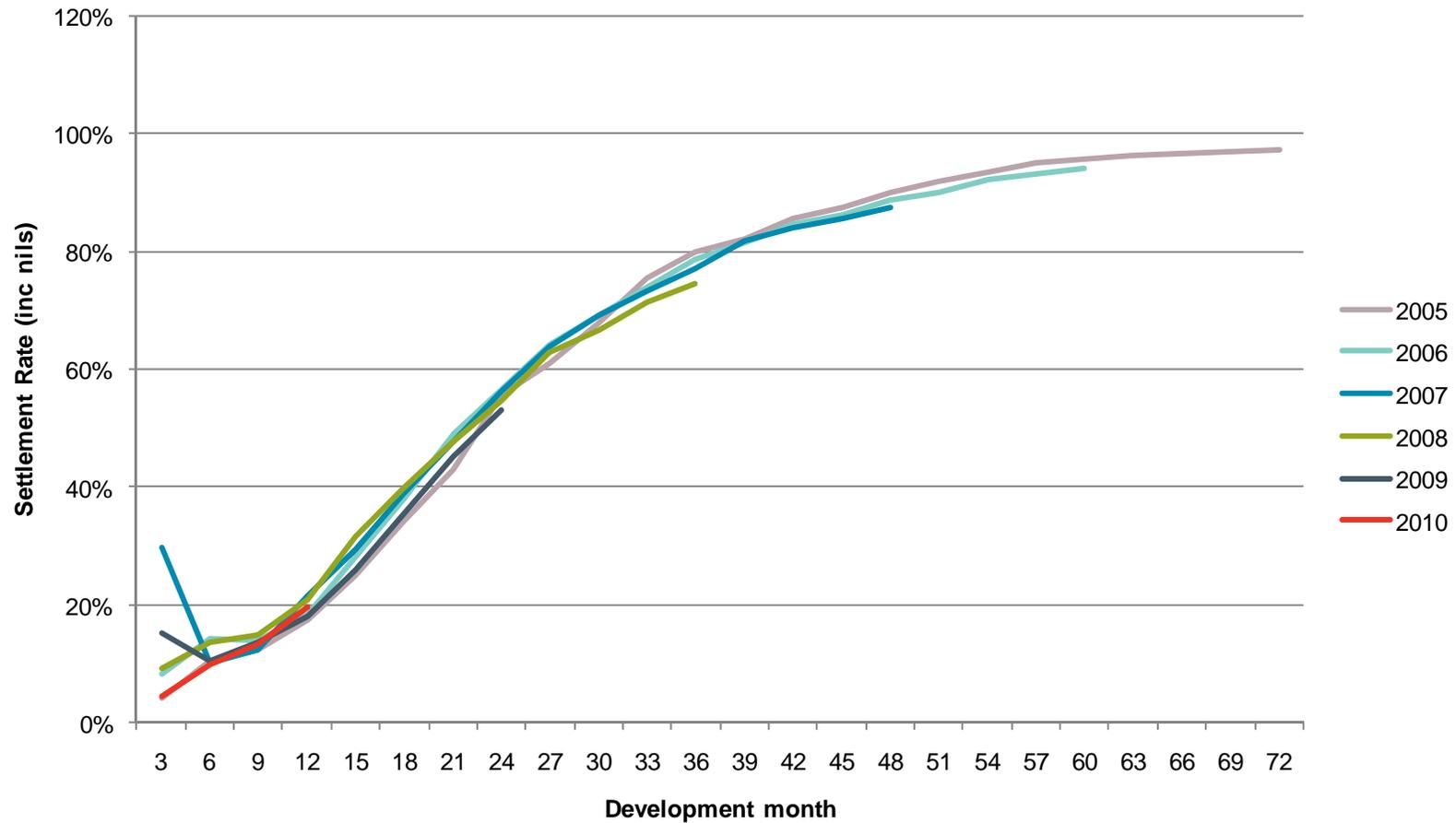
**Motorcycle - All Distribution Channels - TPI Capped**  
Average Cost of Settled Claims - per claim (inc nils)



**Inflation Rates**  
09-10: -0.7% 08-09: 6.3% 07-08: -1.7% 06-07: 6% 05-06: 11.5%

# Motorcycle

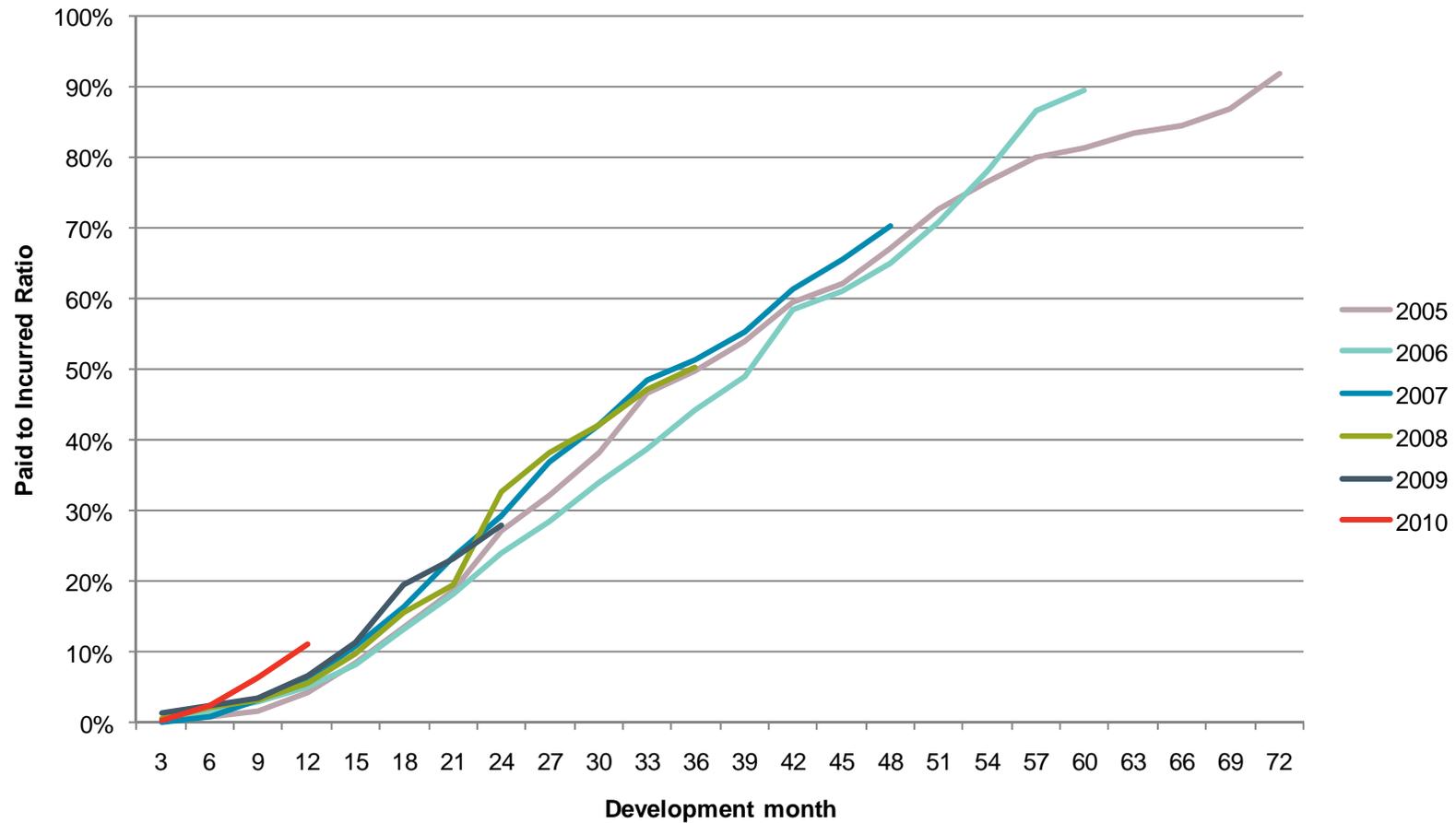
**Motorcycle - All Distribution Channels - TPI Capped**  
Settlement Rate (inc nils)



**Inflation Rates**  
09-10: 8.3% 08-09: -2.8% 07-08: -3.2% 06-07: -1.4% 05-06: -1.8%

# Motorcycle

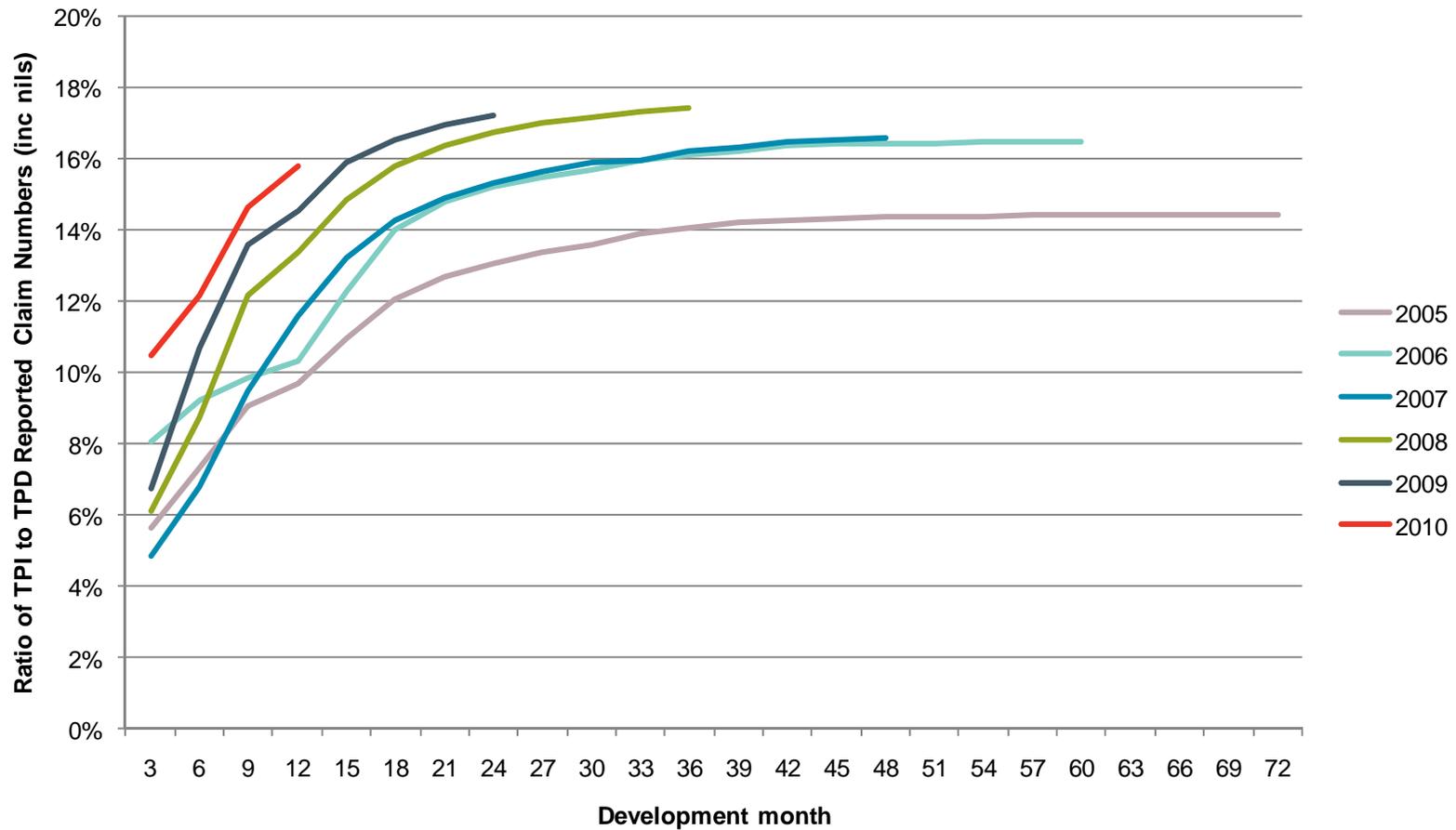
**Motorcycle - All Distribution Channels - TPI Capped**  
Paid to Incurred Ratio



**Inflation Rates**  
09-10: 64.7% 08-09: -14.4% 07-08: -1.7% 06-07: 7.9% 05-06: 10.2%

# Motorcycle

**Motorcycle - All Distribution Channels**  
Ratio of TPI to TPD Reported Claim Numbers (inc nils)



Inflation Rates  
09-10: 8.7% 08-09: 2.8% 07-08: 7.4% 06-07: 0.9% 05-06: 14.1%

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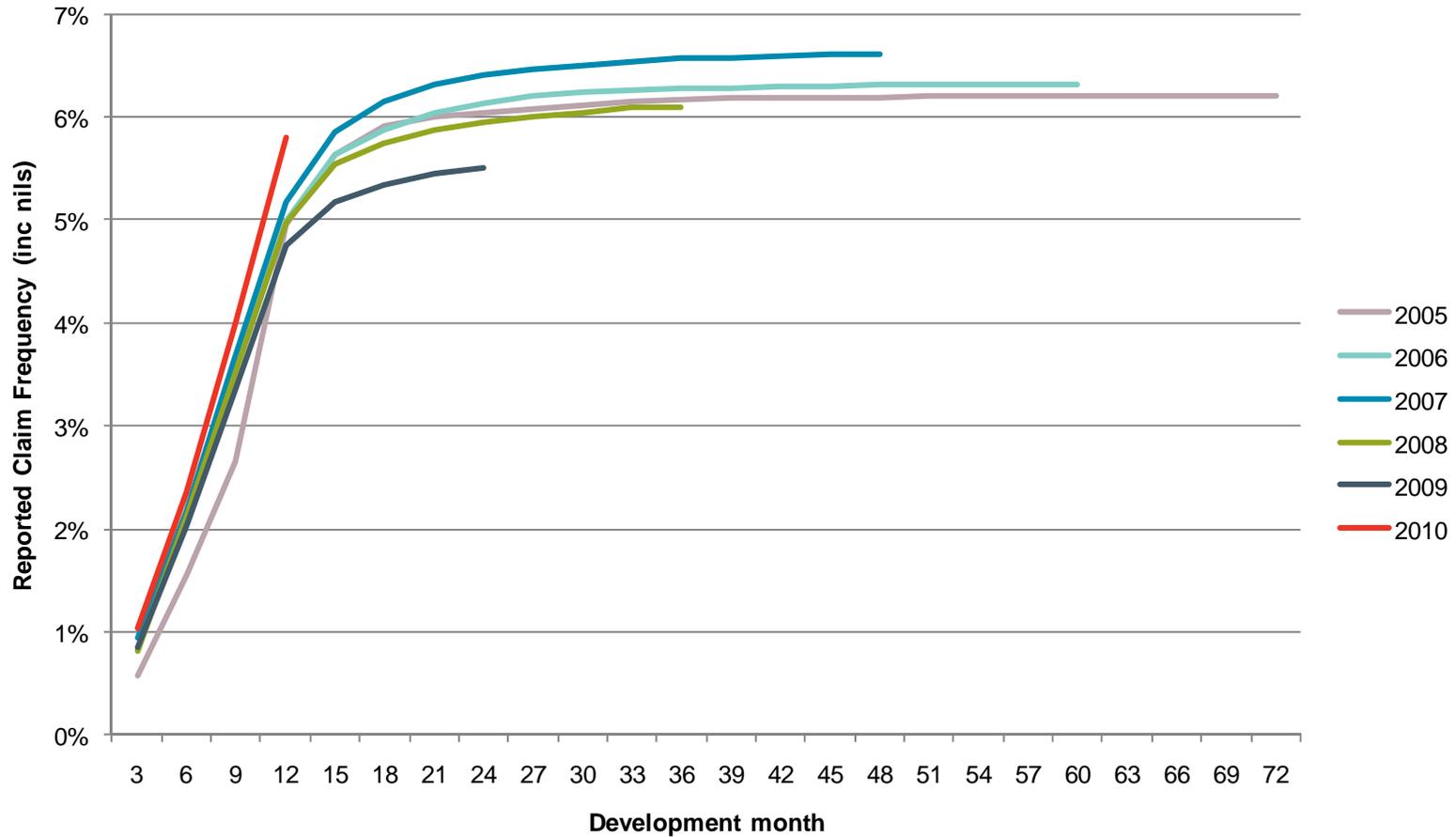
# Non Fleet Commercial Vehicles (CV) and Fleet - Data Quality

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- The Working Party has decided not to release charts where prior year trends have changed significantly from last year's analysis where this has been due to contributors providing data which Towers Watson (or the contributors) do not believe to be accurate. Such decisions have typically followed discussions between Towers Watson and individual data contributors on their data. In such cases we have sometimes been able to create a chart which excludes the contributor in question
- Very few contributors have been able to provide data on settlement rate this year
- Generally, data availability and quality for CV & Fleet is significantly inferior to private car business, which makes it very challenging to produce results for prior years which are consistent with those presented last year.

# CV

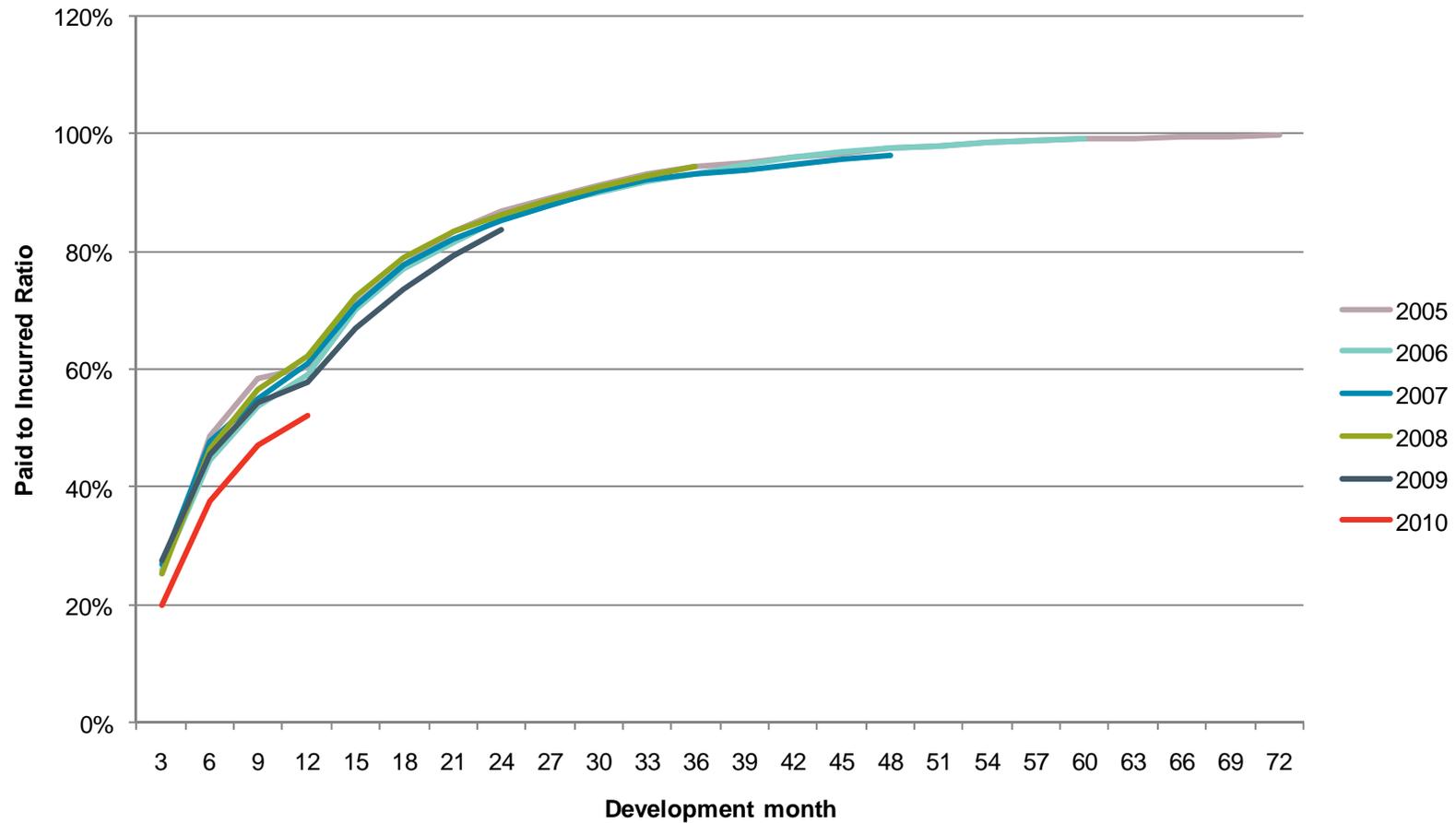
## CV - All Distribution Channels - TPD Reported Claim Frequency (inc nils)



Inflation Rates  
09-10: 22.2% 08-09: -7.6% 07-08: -7.2% 06-07: 4.8% 05-06: 1.9%

# CV

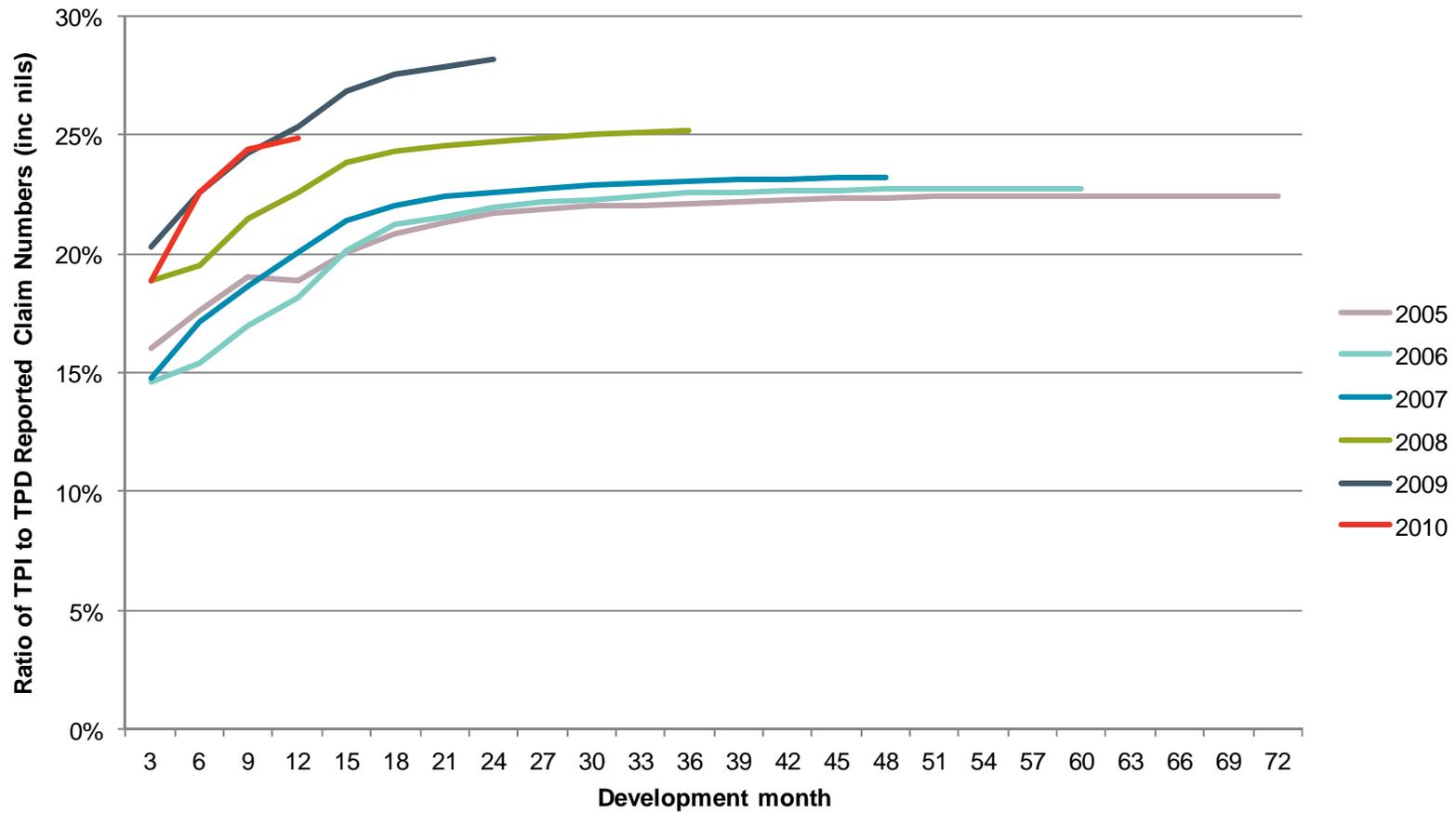
## CV - All Distribution Channels - TPD Paid to Incurred Ratio



Inflation Rates  
 09-10: -9.9% 08-09: -3% 07-08: 1.3% 06-07: -1.3% 05-06: 0.2%

# CV

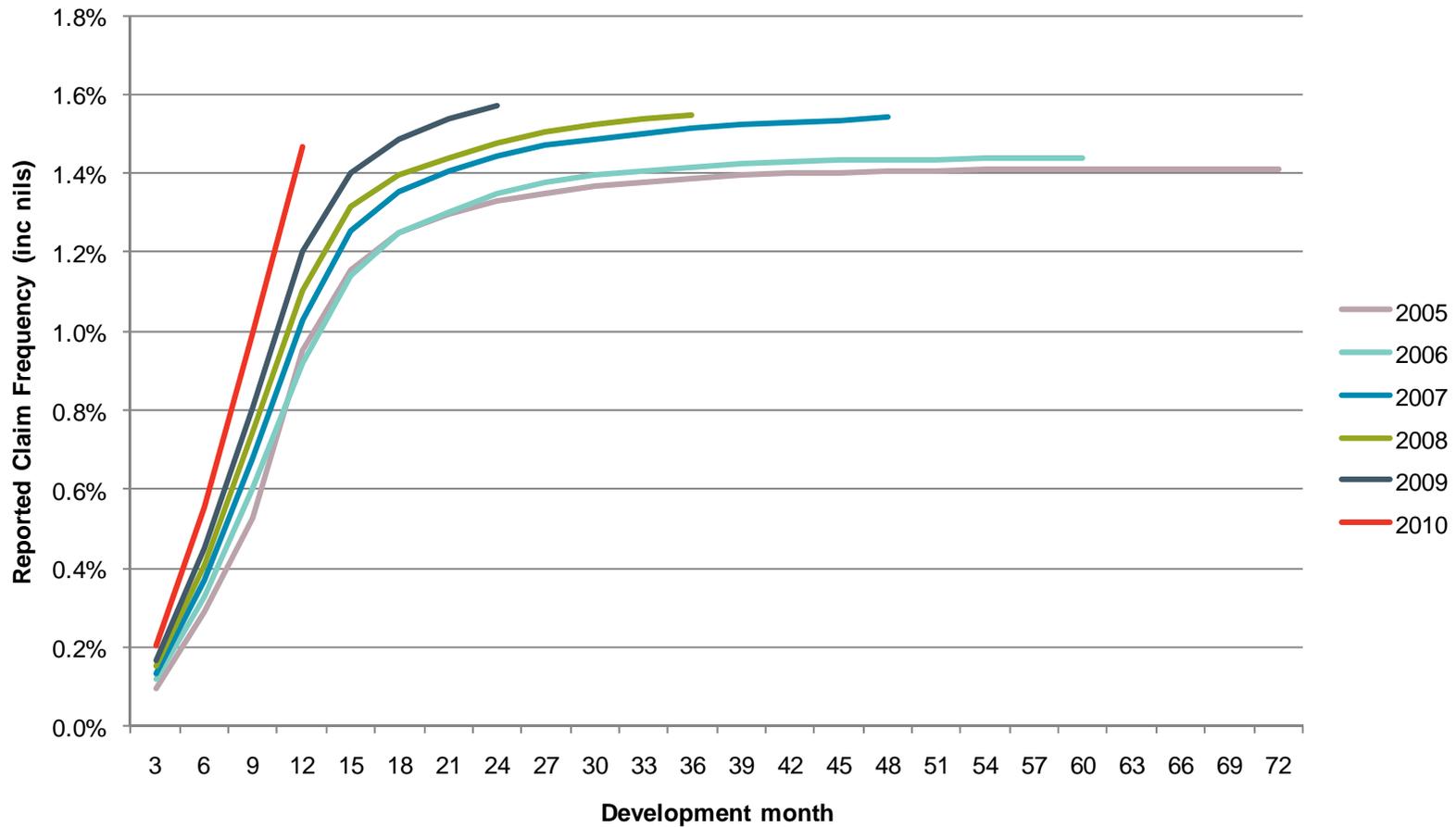
## CV - All Distribution Channels Ratio of TPI to TPD Reported Claim Numbers (inc nils)



**Inflation Rates**  
09-10: -1.7% 08-09: 13.9% 07-08: 9.3% 06-07: 2.4% 05-06: 1.4%

# CV

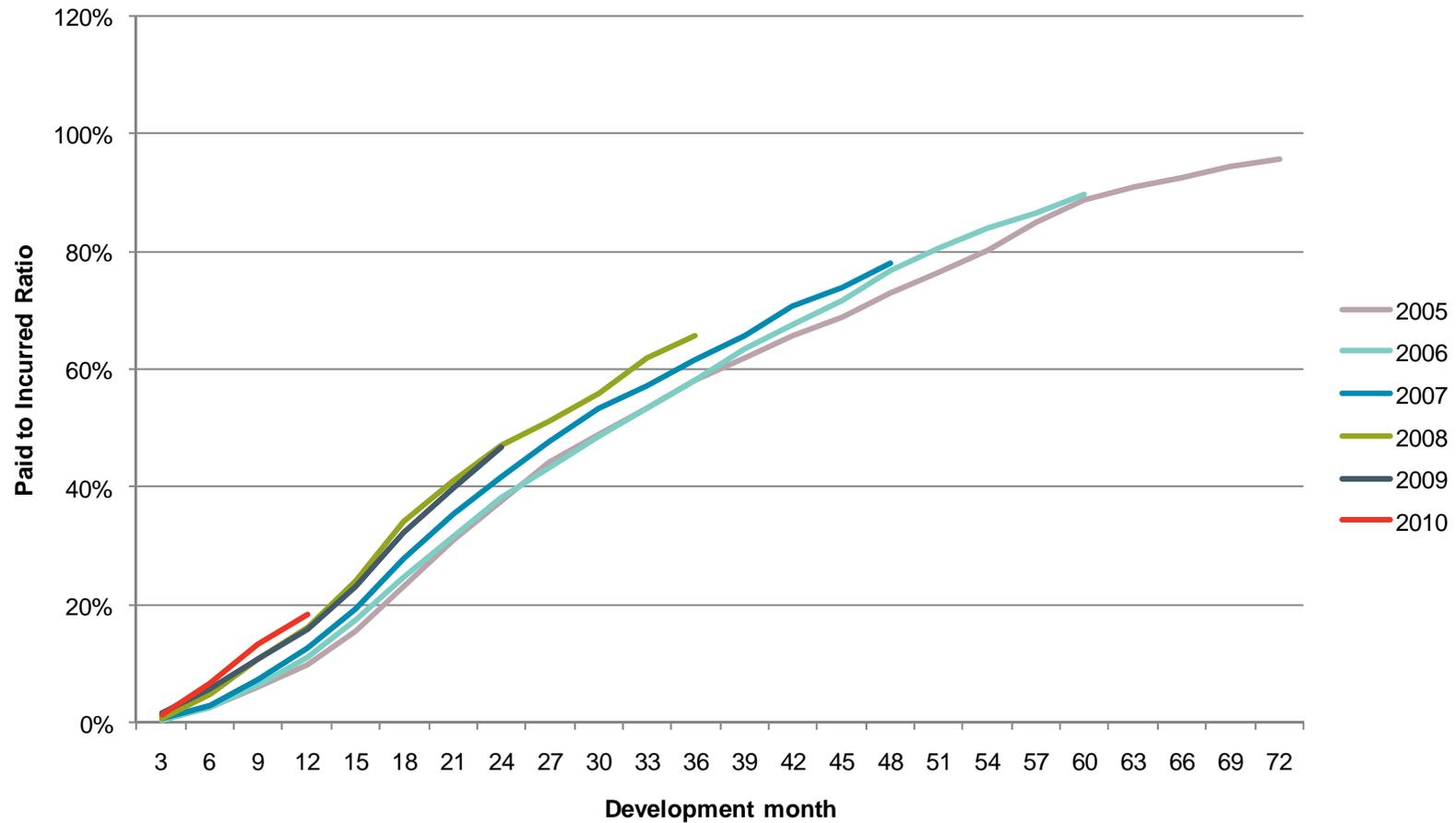
## CV - All Distribution Channels - TPI Capped Reported Claim Frequency (inc nils)



Inflation Rates  
09-10: 21.9% 08-09: 6.5% 07-08: 2.4% 06-07: 7.5% 05-06: 2%

# CV

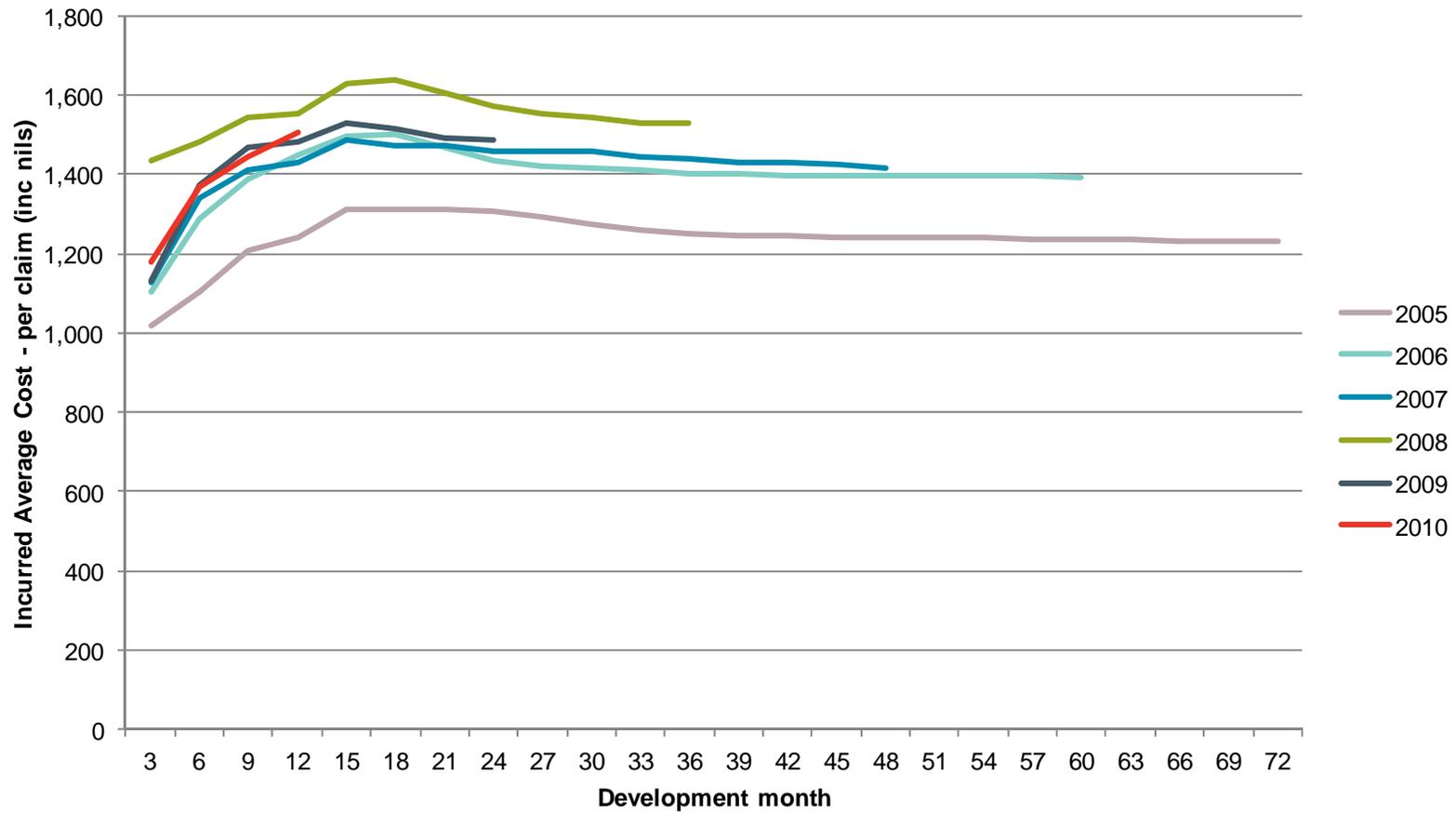
## CV - All Distribution Channels - TPI Capped Paid to Incurred Ratio



**Inflation Rates**  
 09-10: 15.4% 08-09: -0.8% 07-08: 6.9% 06-07: 1.6% 05-06: 1.2%

# Fleet

**Fleet - All Distribution Channels - TPD**  
 Incurred Average Cost - per claim (inc nils)

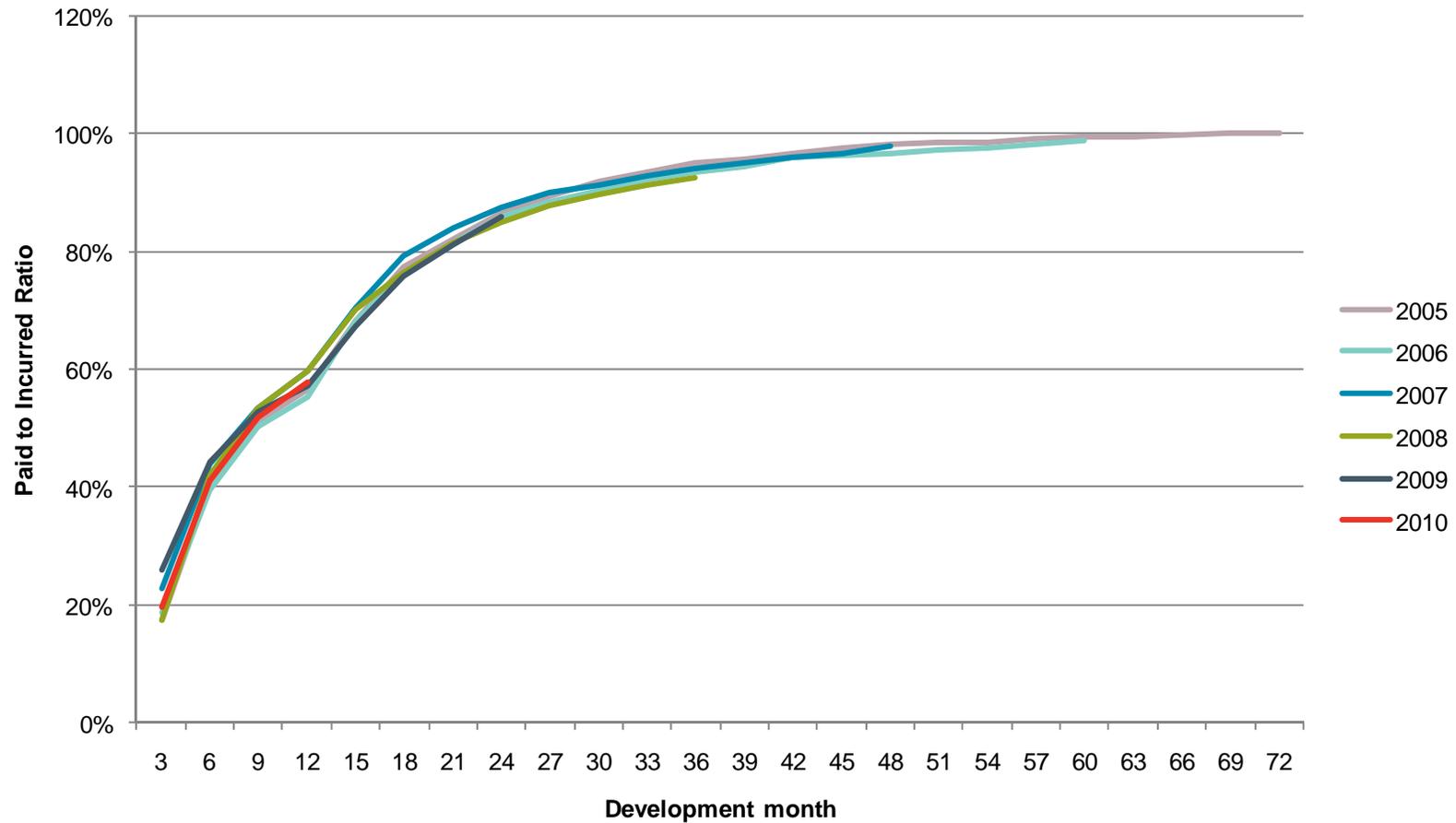


**Inflation Rates**

09-10: 1.7% 08-09: -5.4% 07-08: 6.2% 06-07: 1.2% 05-06: 12.9%

# Fleet

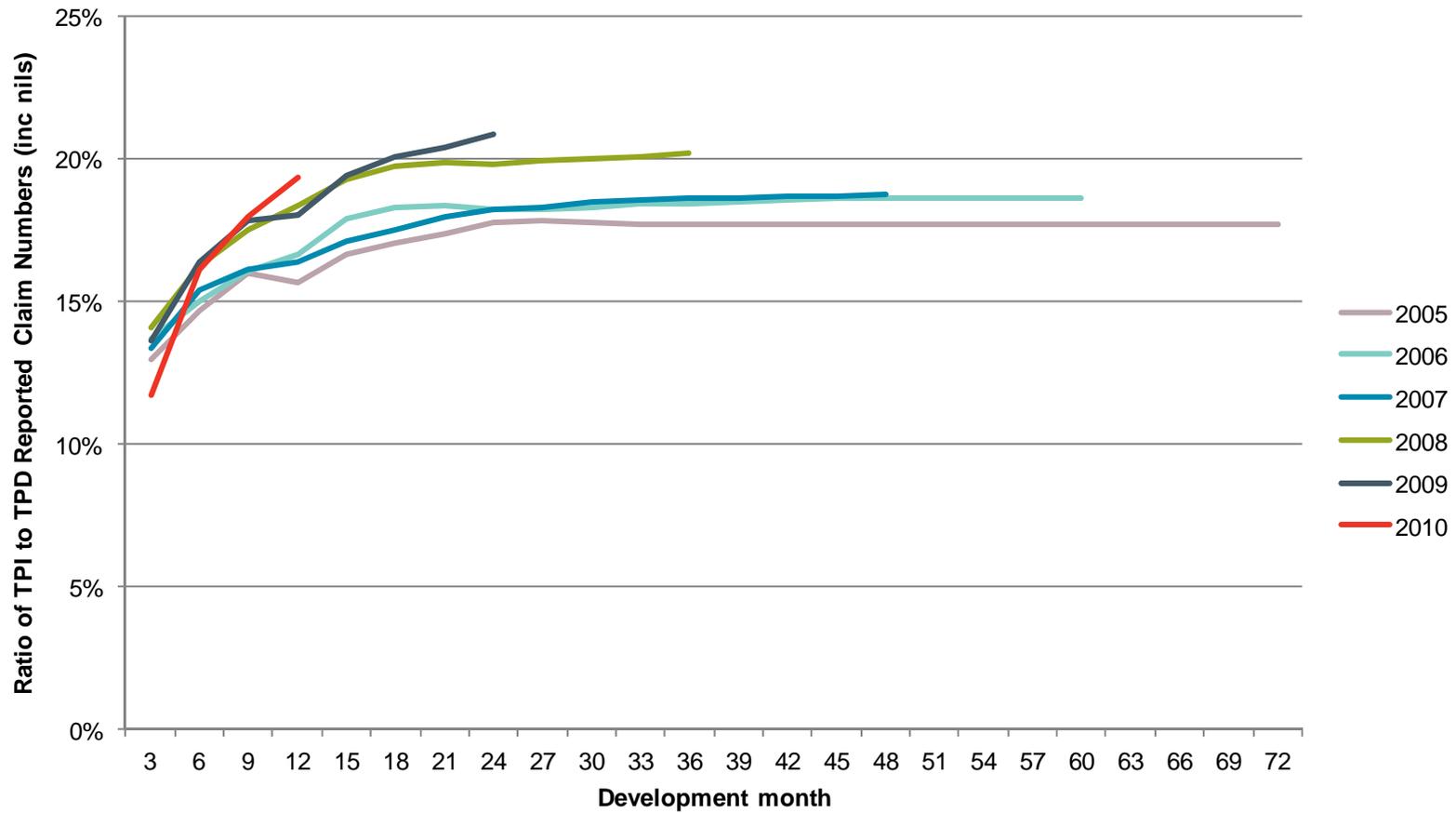
## Fleet - All Distribution Channels - TPD Paid to Incurred Ratio



Inflation Rates  
09-10: 1.6% 08-09: 1.2% 07-08: -1.7% 06-07: 1.2% 05-06: -0.7%

# Fleet

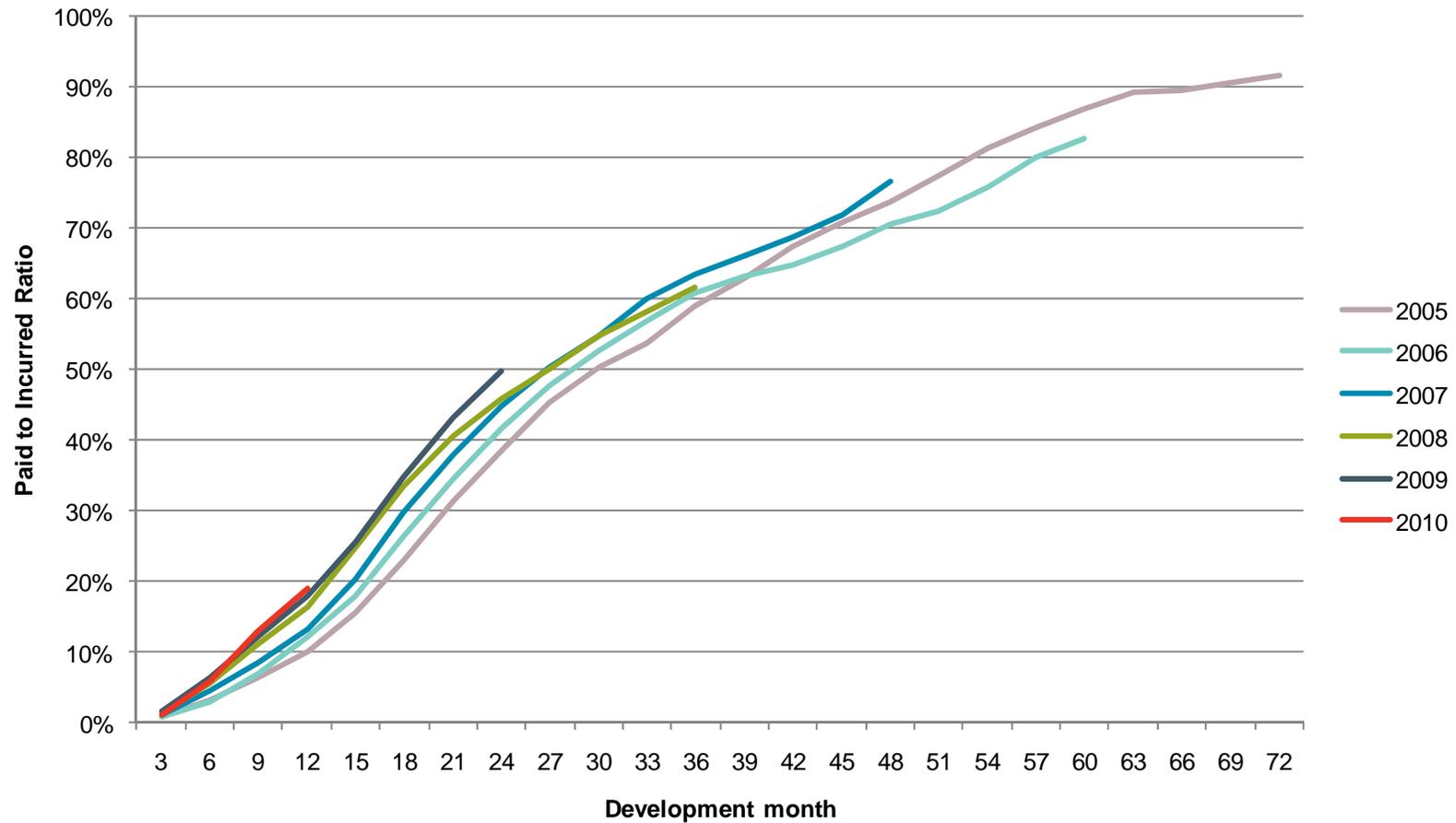
**Fleet - All Distribution Channels**  
Ratio of TPI to TPD Reported Claim Numbers (inc nils)



**Inflation Rates**  
09-10: 7.3% 08-09: 5% 07-08: 8.8% 06-07: 0.6% 05-06: 5.2%

# Fleet

## Fleet - All Distribution Channels - TPI Capped Paid to Incurred Ratio



Inflation Rates  
 09-10: 6.5% 08-09: 8.9% 07-08: -2.7% 06-07: 8.6% 05-06: -4.9%

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5. Excess of Capped TPI results
  - Data Trends
  - Projected Ultimates
  - Analyses of Largest Claims
  - Adequacy of Case Estimates

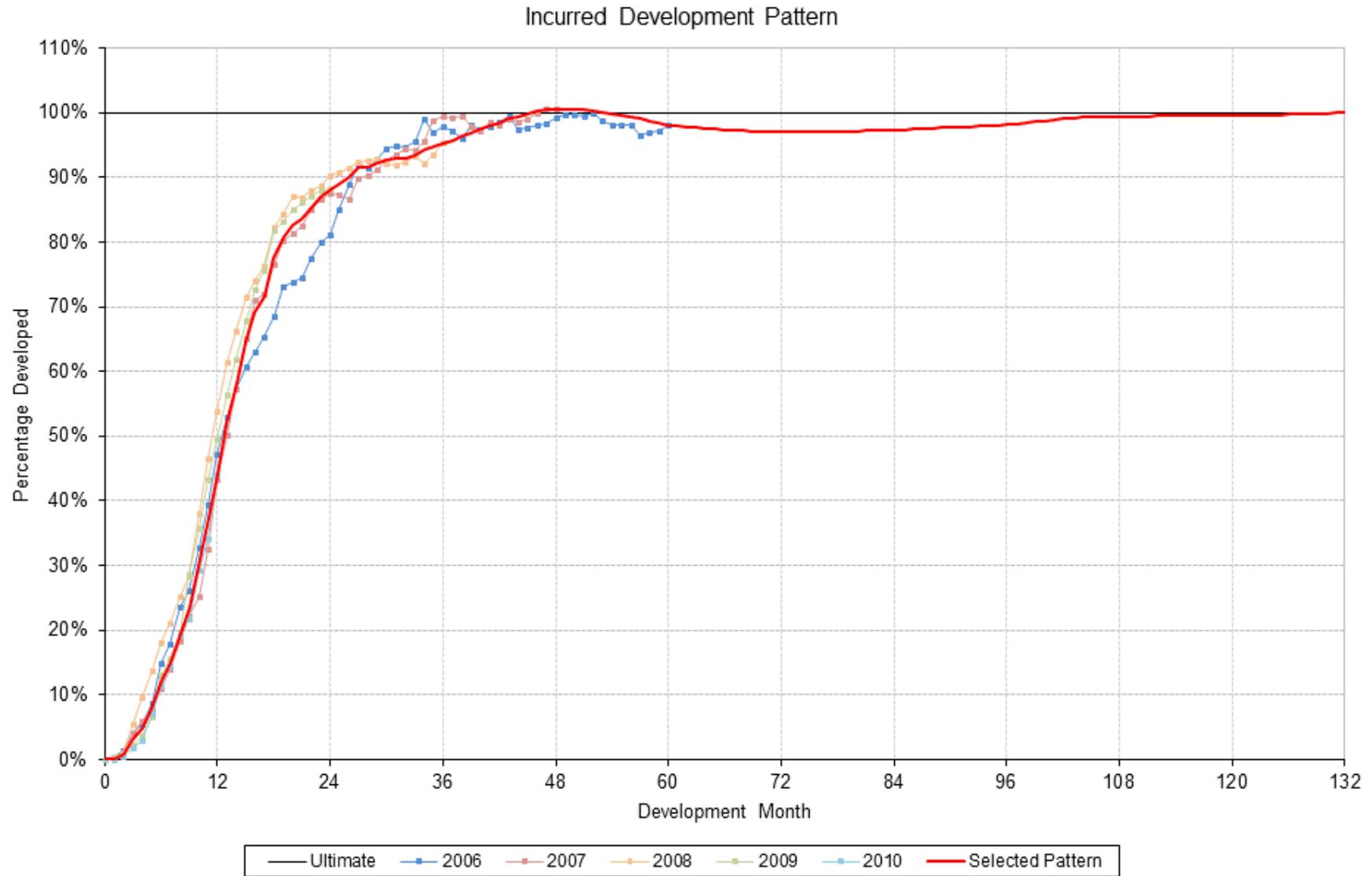
# Benchmark Development - Incurred

Private Car Comprehensive - Excess BI Incurred Claims Development Pattern

Start Month	Development Month											
	1	2	3	4	5	6	7	8	9	10	11	12
1	0.1%	0.8%	3.0%	4.9%	7.9%	12.3%	14.9%	18.9%	23.4%	29.8%	36.2%	44.0%
13	51.8%	58.1%	64.5%	69.1%	71.6%	77.5%	80.8%	82.6%	83.5%	85.5%	87.1%	88.2%
25	89.2%	90.0%	91.5%	91.5%	92.3%	92.6%	92.9%	93.0%	93.4%	94.3%	94.9%	95.3%
37	95.8%	96.3%	96.9%	97.5%	98.0%	98.5%	99.0%	99.5%	99.9%	100.2%	100.4%	100.6%
49	100.6%	100.5%	100.5%	100.3%	100.1%	99.9%	99.6%	99.3%	99.0%	98.7%	98.4%	98.0%
61	97.9%	97.8%	97.7%	97.6%	97.5%	97.4%	97.3%	97.3%	97.2%	97.1%	97.1%	97.0%
73	97.0%	97.0%	97.0%	97.0%	97.1%	97.1%	97.1%	97.2%	97.2%	97.3%	97.3%	97.3%
85	97.4%	97.5%	97.5%	97.6%	97.7%	97.7%	97.8%	97.8%	97.9%	98.0%	98.1%	98.2%
97	98.3%	98.5%	98.6%	98.8%	99.0%	99.1%	99.2%	99.4%	99.4%	99.5%	99.5%	99.5%
109	99.5%	99.5%	99.5%	99.5%	99.5%	99.5%	99.5%	99.5%	99.5%	99.5%	99.5%	99.5%
121	99.6%	99.6%	99.6%	99.7%	99.7%	99.8%	99.8%	99.8%	99.9%	99.9%	100.0%	100.0%

- The table above shows the selected incurred development pattern for claims in excess of £100k (indexed)
- The table shows the cumulative development within the first year within the first row, the second year within the second row, and so on...

# Benchmark Development - Incurred



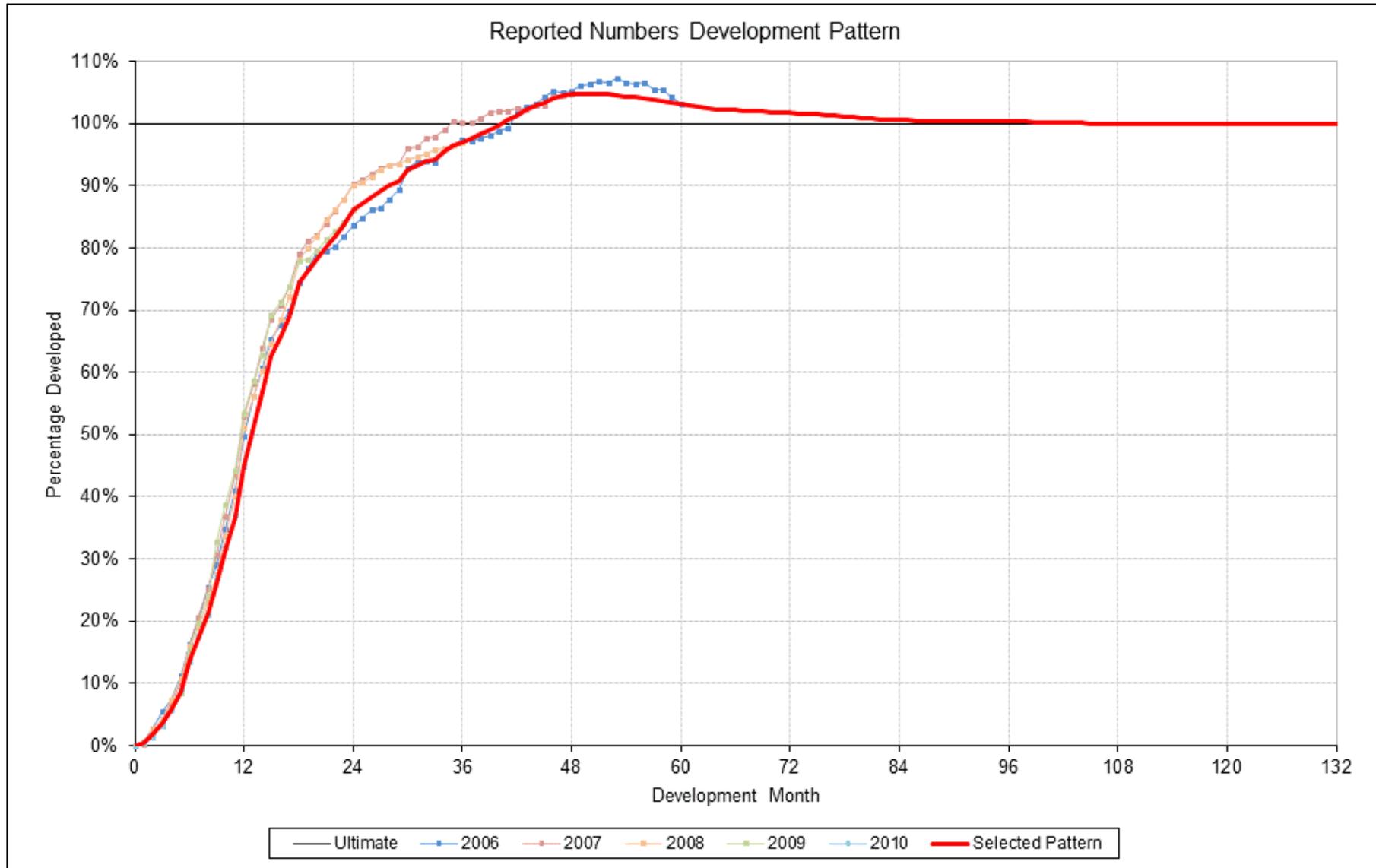
# Benchmark Development - Reported

Private Car Comprehensive - Excess BI Claim Numbers Development Pattern

Start Month	Development Month											
	1	2	3	4	5	6	7	8	9	10	11	12
1	0.4%	1.8%	3.6%	5.8%	8.8%	13.7%	17.3%	21.2%	26.2%	31.3%	36.7%	44.8%
13	51.3%	56.8%	62.5%	65.7%	69.0%	74.4%	76.3%	78.1%	80.2%	81.8%	83.7%	86.3%
25	87.1%	88.3%	89.1%	90.0%	90.9%	92.7%	93.3%	93.9%	94.3%	95.6%	96.5%	96.9%
37	97.6%	98.3%	99.0%	99.8%	100.6%	101.4%	102.1%	102.8%	103.5%	104.0%	104.4%	104.7%
49	104.7%	104.7%	104.7%	104.7%	104.6%	104.4%	104.2%	104.0%	103.8%	103.6%	103.4%	103.2%
61	102.9%	102.7%	102.5%	102.3%	102.2%	102.1%	102.1%	102.0%	101.9%	101.9%	101.8%	101.7%
73	101.7%	101.6%	101.5%	101.4%	101.3%	101.1%	101.0%	100.9%	100.8%	100.7%	100.6%	100.6%
85	100.5%	100.5%	100.4%	100.4%	100.4%	100.4%	100.4%	100.4%	100.4%	100.4%	100.4%	100.4%
97	100.3%	100.3%	100.3%	100.2%	100.2%	100.2%	100.1%	100.1%	100.1%	100.0%	100.0%	100.0%
109	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
121	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

- The table above shows the selected reported numbers development pattern for claims in excess of £100k (indexed)
- The table shows the cumulative development within the first year within the first row, the second year within the second row, and so on...

# Benchmark Development - Reported



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# Contents

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1. Additional statistics for Private Car Comprehensive Capped TPI
  - Claimants per claim
  - Reported claimant frequency
2. Geographical analysis
3. Motorcycle, CV Non-Fleet and Fleet
4. Benchmark development
5. Excess of Capped TPI results
  - Data Trends
  - Projected Ultimates
  - Analyses of Largest Claims
  - Adequacy of Case Estimates

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# Excess of Capped TPI Analysis

## Introduction

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- Data formats and analysis identical to IUA Bodily Injury Studies
- Anonymised data was provided for individual TPI claims relating to accident years 2000 through to 2010 (inclusive)
- Data was provided “as at” 31 December 2010
- The analysis investigated the cost of claims in excess of a threshold of £100,000 in 2010 money, indexed at 7% per annum
- The analysis was restricted to Private Car Comprehensive due to insufficient quantities of data in other lines of business
- Results are generally shown for accident years 2002 through to 2010, owing to reduced exposure for the 2000 and 2001 accident years.

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# Excess of Capped TPI Analysis

## Introduction

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- The threshold for the relevant accident years are based on £100k in 2010 money indexed at 7%
- The thresholds are slightly lower than those used in the capped claims analysis shown in the Capped Bodily Injury results (thresholds were equal to £50k in 1999 money indexed at 7% per annum, c.f. £47.5k in 1999 money)
- This was done to maximise consistency with the IUA Bodily Injury Studies

Accident Year	Threshold
2000	50,835
2001	54,393
2002	58,201
2003	62,275
2004	66,634
2005	71,299
2006	76,290
2007	81,630
2008	87,344
2009	93,458
2010	100,000

# Excess of Capped TPI Analysis

## Data Summary

Summary of Excess of Capped TPI Data

Accident Period	Earned Exposure  (millions of vehicle years)	Percentage of market  (source: 2010 FSA returns)	Reported Excess of Capped Claim Numbers	Reported Excess of Capped Claim Frequency  (claims per million units of exposure)
2002	10.7	71%	1,295	120.7
2003	12.2	74%	1,345	110.0
2004	12.7	73%	1,250	98.6
2005	13.1	75%	1,355	103.2
2006	13.1	75%	1,350	103.0
2007	12.5	72%	1,388	111.2
2008	12.3	70%	1,210	98.6
2009	12.8	70%	1,169	91.5
2010	13.0	72%	575	44.4
<b>Total</b>	<b>112.3</b>	<b>73%</b>	<b>10,937</b>	

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# Excess of Capped TPI Analysis

## Background to following charts

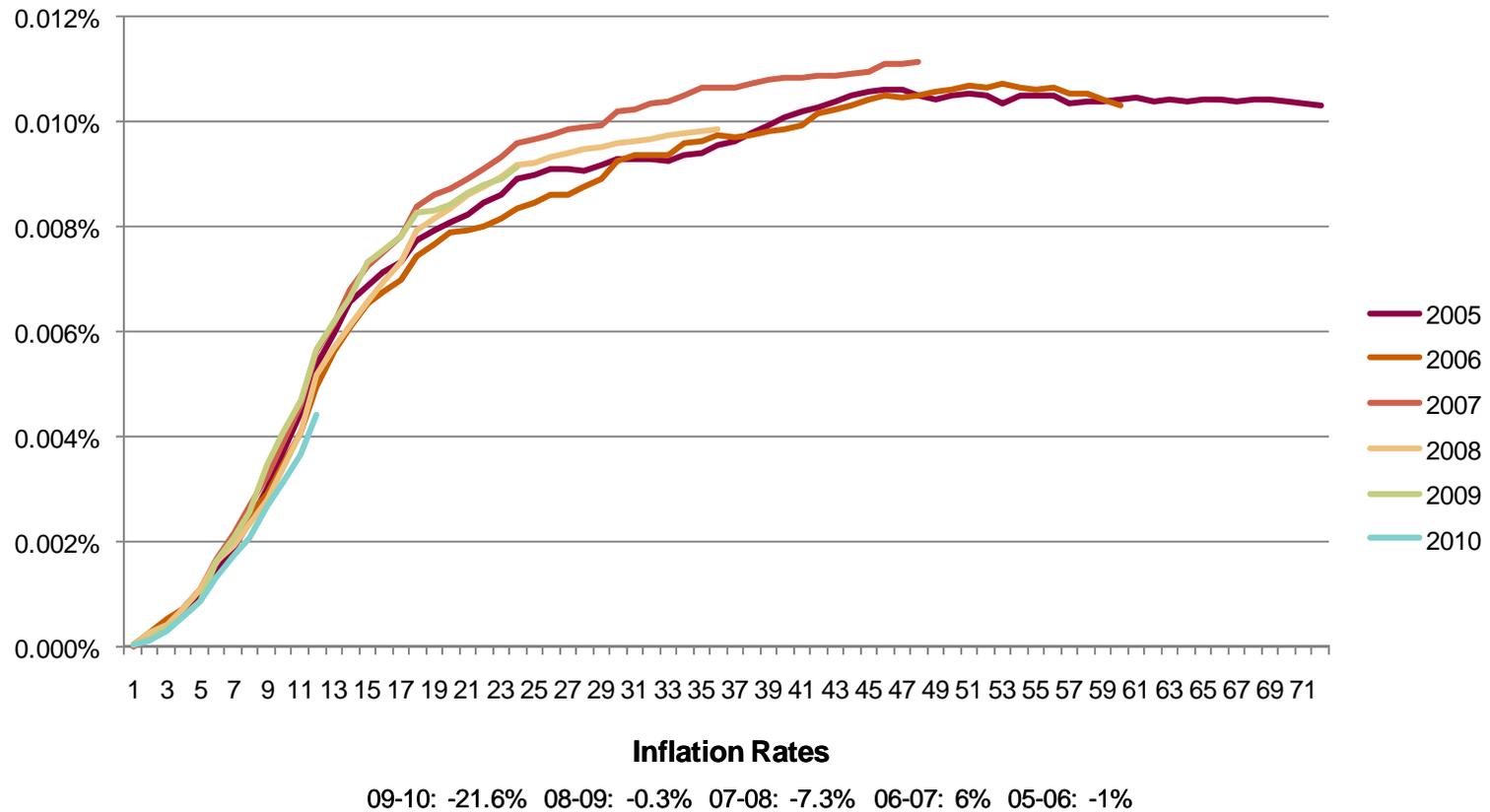
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- The following charts show key features of the development of the claims
- Some prior years have been omitted from some of the charts in order to focus on the areas of greatest interest
- The horizontal axis shows the number of development months since the start of each accident year.

# Excess of Capped TPI Analysis

## Data Trends

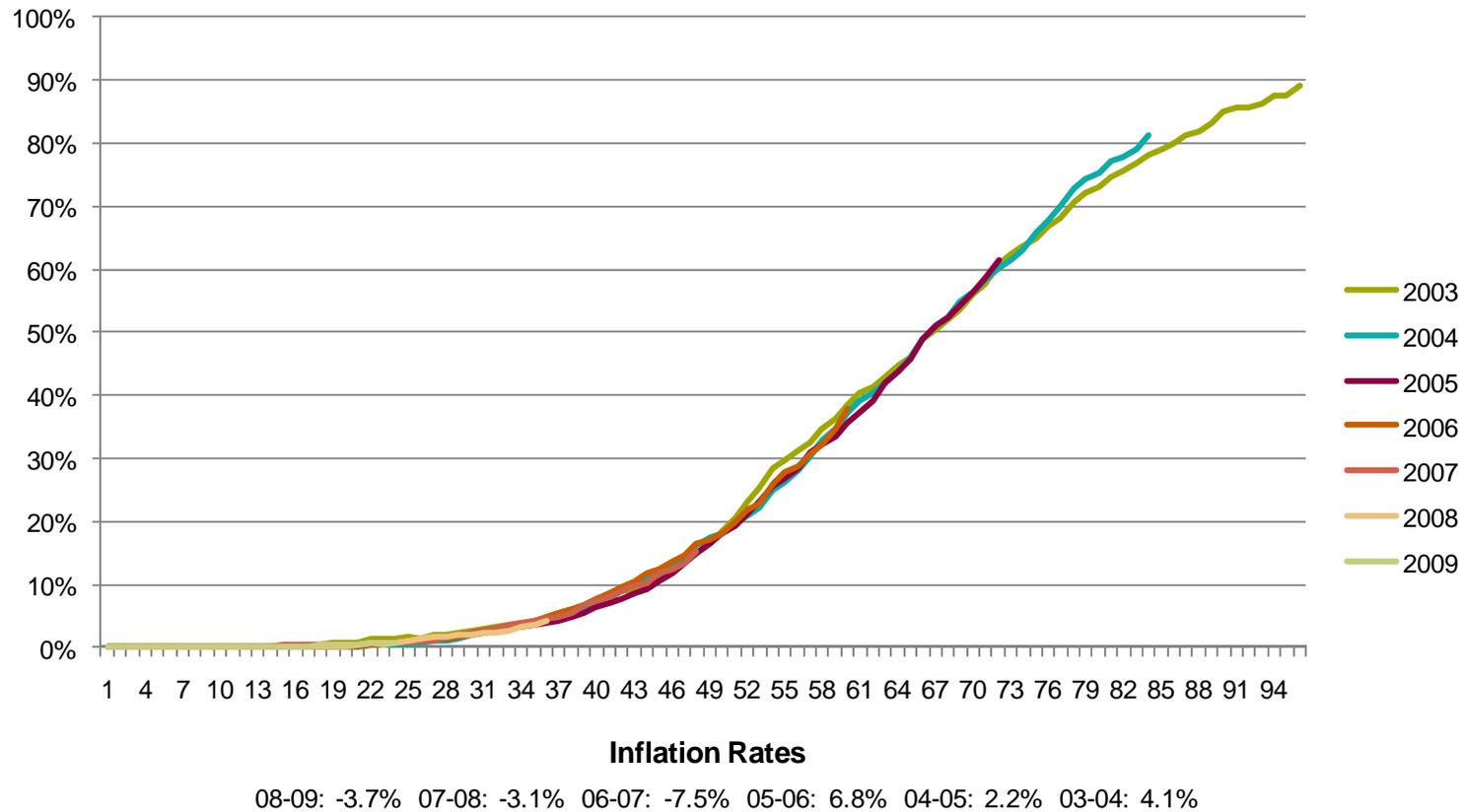
**Excess of Capped Claim Frequency**



# Excess of Capped TPI Analysis

## Data Trends

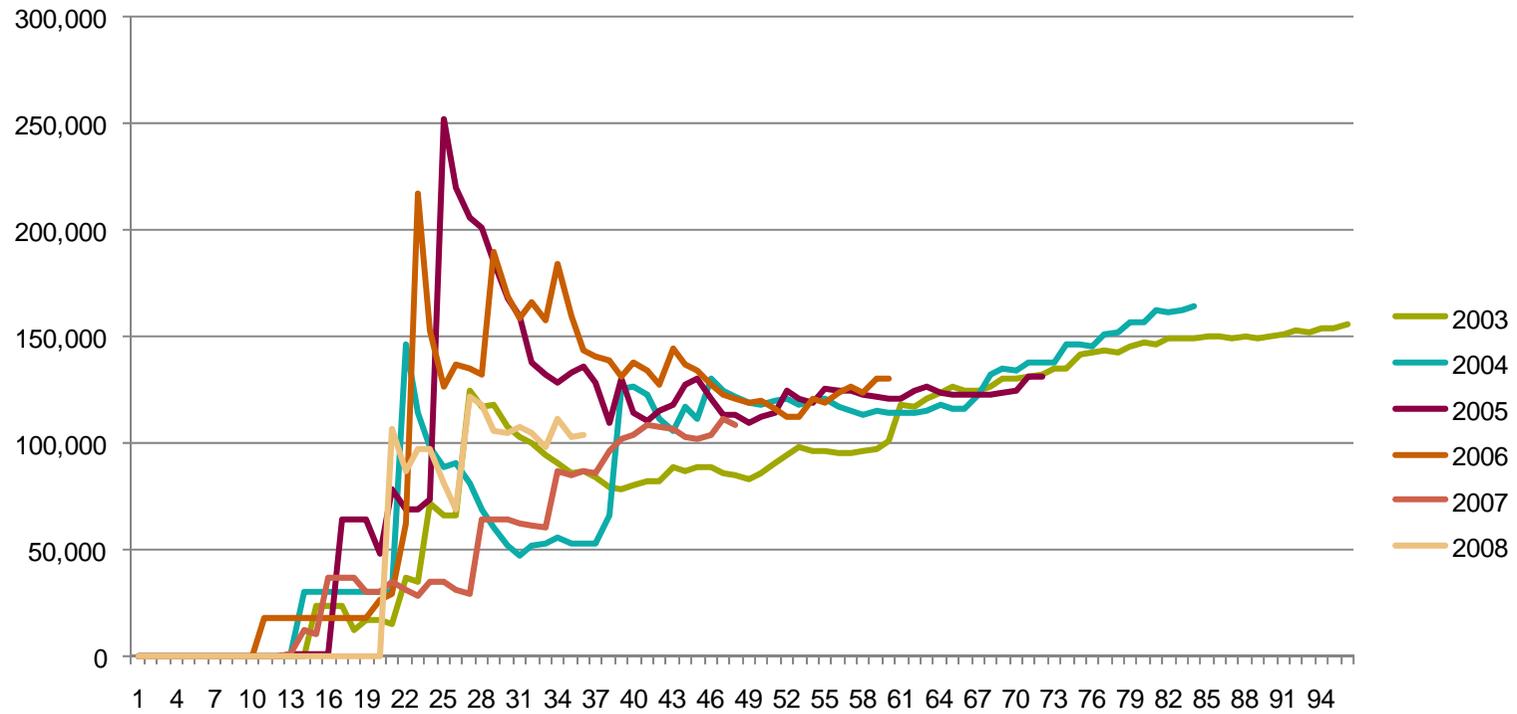
**Excess of Capped Settlement Rate**



# Excess of Capped TPI Analysis

## Data Trends

### Excess of Capped Settled Average Cost



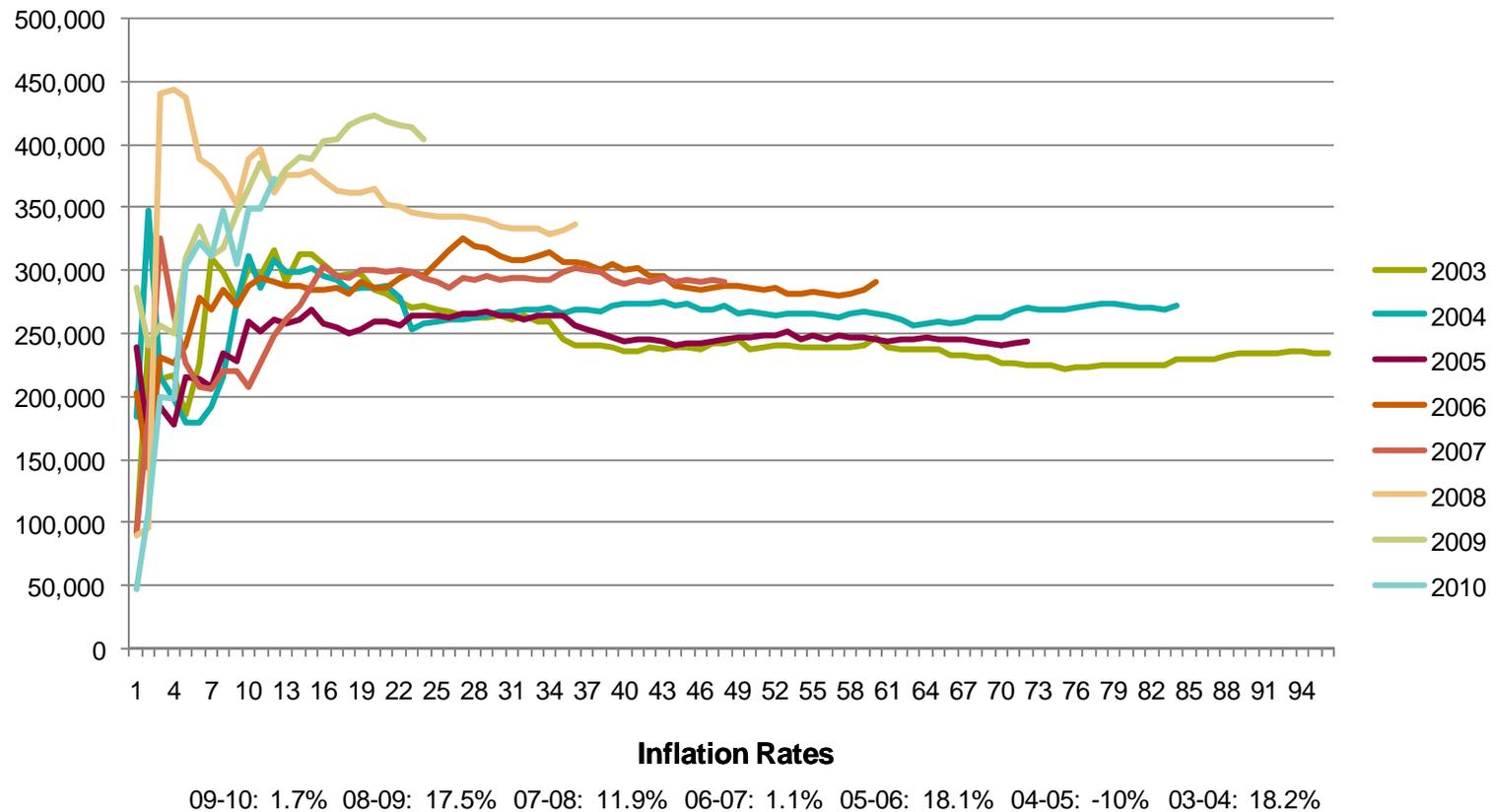
**Inflation Rates**

07-08: 19.6% 06-07: -10.8% 05-06: 7.6% 04-05: -4.5% 03-04: 10%

# Excess of Capped TPI Analysis

## Data Trends

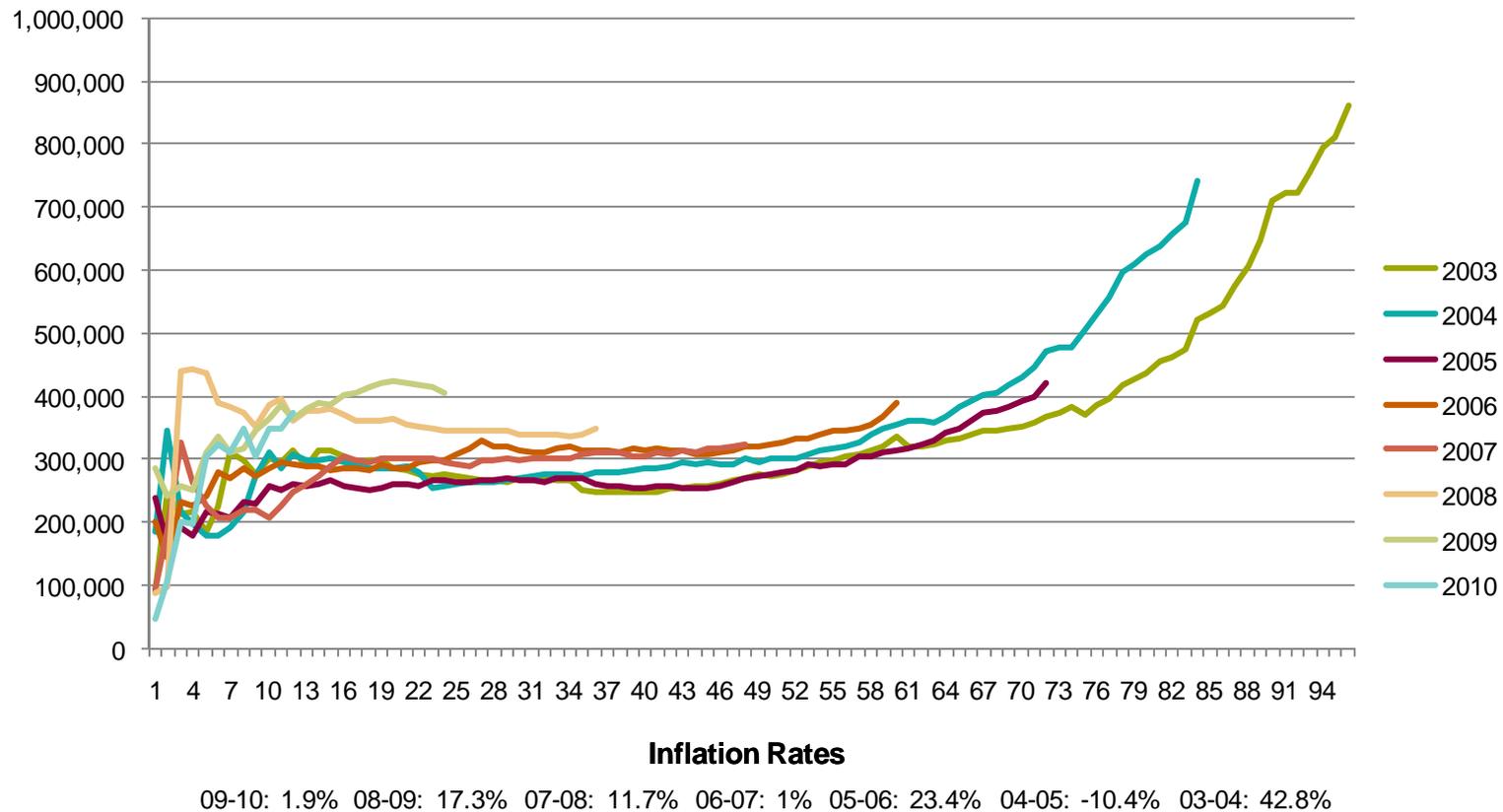
**Excess of Capped Incurred Average Cost**



# Excess of Capped TPI Analysis

## Data Trends

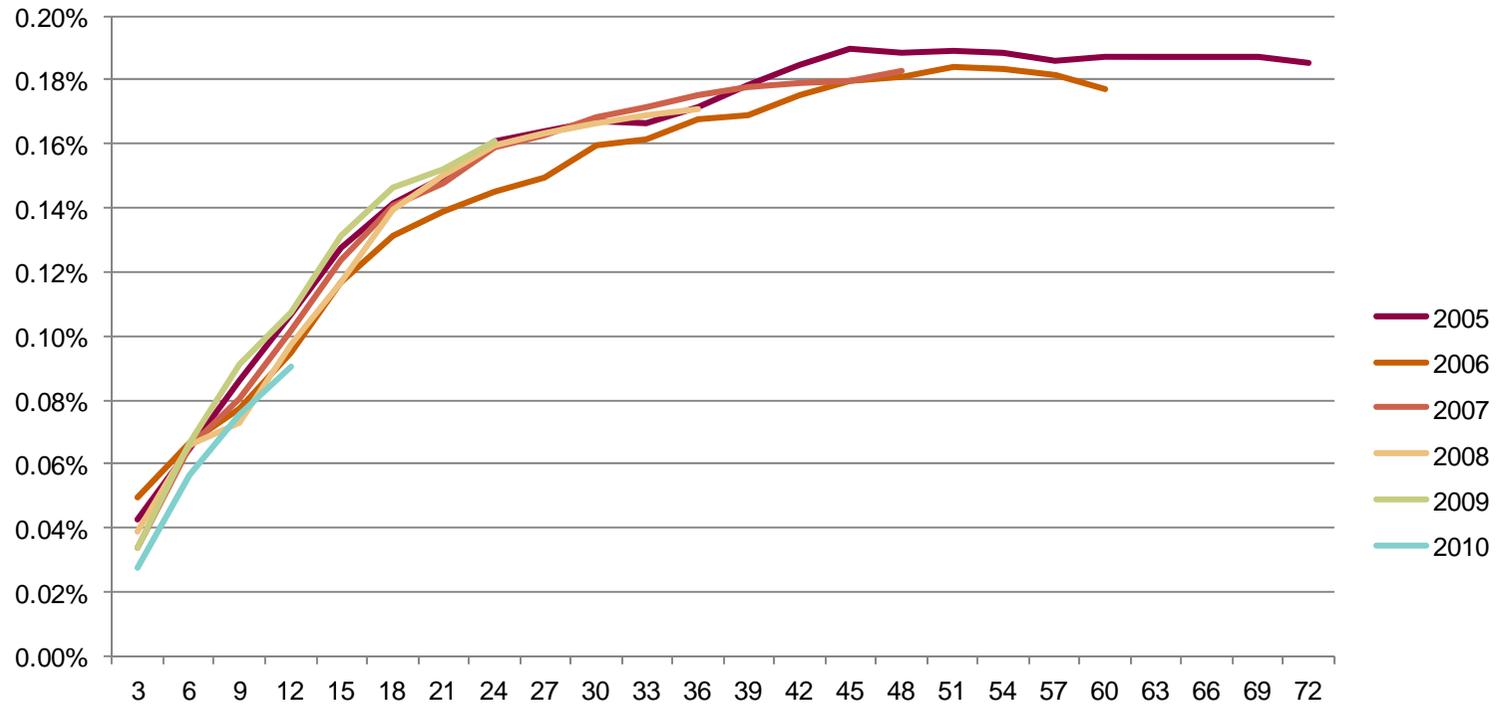
### Excess of Capped Average Cost of Open Claims



# Excess of Capped TPI Analysis

## Data Trends

**Ratio of Excess BI to TPD reported numbers**



**Inflation Rates**

09-10: -16.1% 08-09: 0.7% 07-08: -2.6% 06-07: 1% 05-06: -5.1%

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# Excess of Capped TPI Analysis

## Projected Ultimate Claims

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- Claim numbers and claim amounts were projected in a series of (unindexed) layers:
  - £100k to £250k
  - £250k to £500k
  - £500k to £1m
  - £1m to £2m
  - £2m to 5m
  - £5m+
- A seventh layer between £100k unindexed and £100k indexed was used to calculate results in excess of £100k indexed. Results for this layer are not included in analysis of layers.

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# Excess of Capped TPI Analysis

## Projected Ultimate Claims

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- The definition of the layers is such that a claim of £1m contributes £150k to the lowest layer, £250k to next layer and £500k to the next layer.
- This approach allowed the estimation of claim frequencies, average costs and burning costs within layers to be estimated for each accident year.
- Note that although the nominal £100k-250k frequency is increasing, the frequency of claims in excess of the indexed threshold has been falling. The increase in frequency seen on an unindexed basis is due to underlying natural inflation.

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# Excess of Capped TPI Analysis

## Projected Ultimate Claims - Uncertainty

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- Rigorously straightforward mechanistic projection methodology
- No tail beyond 11 years as no data
- An  $x\%$  tail factor would increase ultimates for all accident years by  $x\%$  but with the same trend across years.
- The Ogden consultation and version 7 of the Ogden tables are most likely not reflected in insurers' data:
  - Any increase in longevity assumptions or drop in the discount rate would lead to additional inflation
  - Such increases may however be mitigated at least partially by PPOs being less attractive to insurers.

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# Excess of Capped TPI Analysis

## Projected Ultimate Claims - Uncertainty

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- The **PPO** Working Party has found range of approaches to PPO case reserves. Quoted inflation rates may be overstated excluding PPOs but understated including PPOs
- **2010 Q4 had poor weather** in December, bringing potential reporting delays & lower impact speeds and less TPI
- The most recent accident years are immature in their development and as such are subject to material uncertainty
- Due to lack of development data, Paid triangles were not used. As such projections are subject to uncertainty caused by changes in case reserve strength over time

# Excess of Capped TPI Analysis

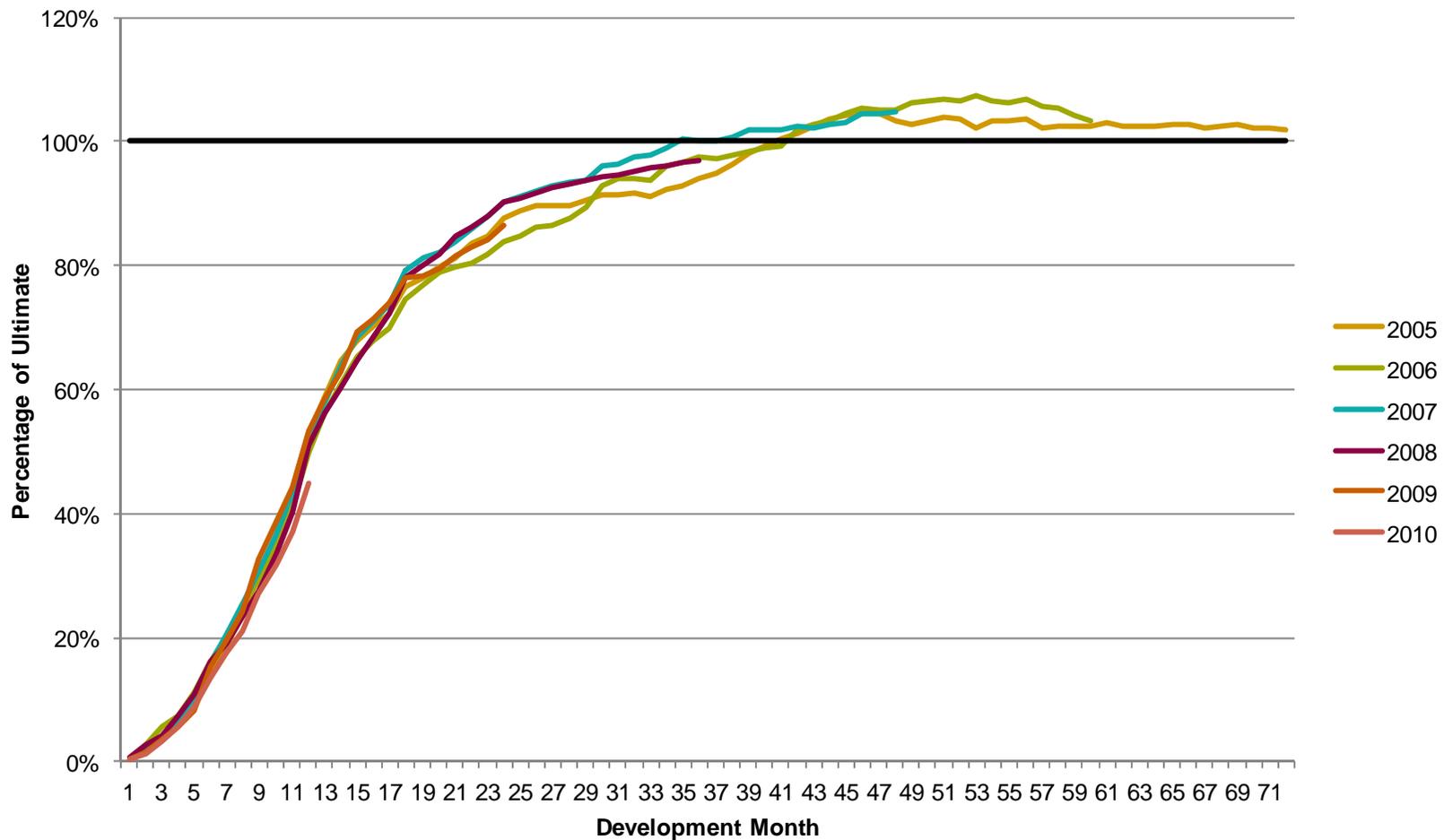
## Projected Ultimate Claims

Projected Ultimate Excess of Capped TPI Results for Private Car Comprehensive

Accident Period	Earned Exposure  (millions of vehicle years)	Ultimate Excess of Capped Claim Frequency  (claims per million vehicle years)	Ultimate Excess of Capped Claim Severity  (£)	Ultimate Excess of Capped Burning Cost  (£)	Year-on-Year Change in Frequency  (% pa)	Year-on-Year Change in Severity  (% pa)	Year-on-Year Change in Burning Cost  (% pa)
2002	10.73	121	264,174	31.9			
2003	12.23	110	239,715	26.3	-9.3%	-9.3%	-17.7%
2004	12.68	98	280,907	27.5	-10.5%	17.2%	4.8%
2005	13.13	101	254,733	25.8	3.5%	-9.3%	-6.1%
2006	13.11	100	305,617	30.5	-1.6%	20.0%	18.0%
2007	12.48	106	303,334	32.2	6.4%	-0.7%	5.6%
2008	12.27	102	342,928	34.9	-4.2%	13.1%	8.4%
2009	12.77	106	395,167	41.9	4.2%	15.2%	<b>20.1%</b>
2010	12.96	99	378,975	37.5	-6.6%	-4.1%	-10.5%

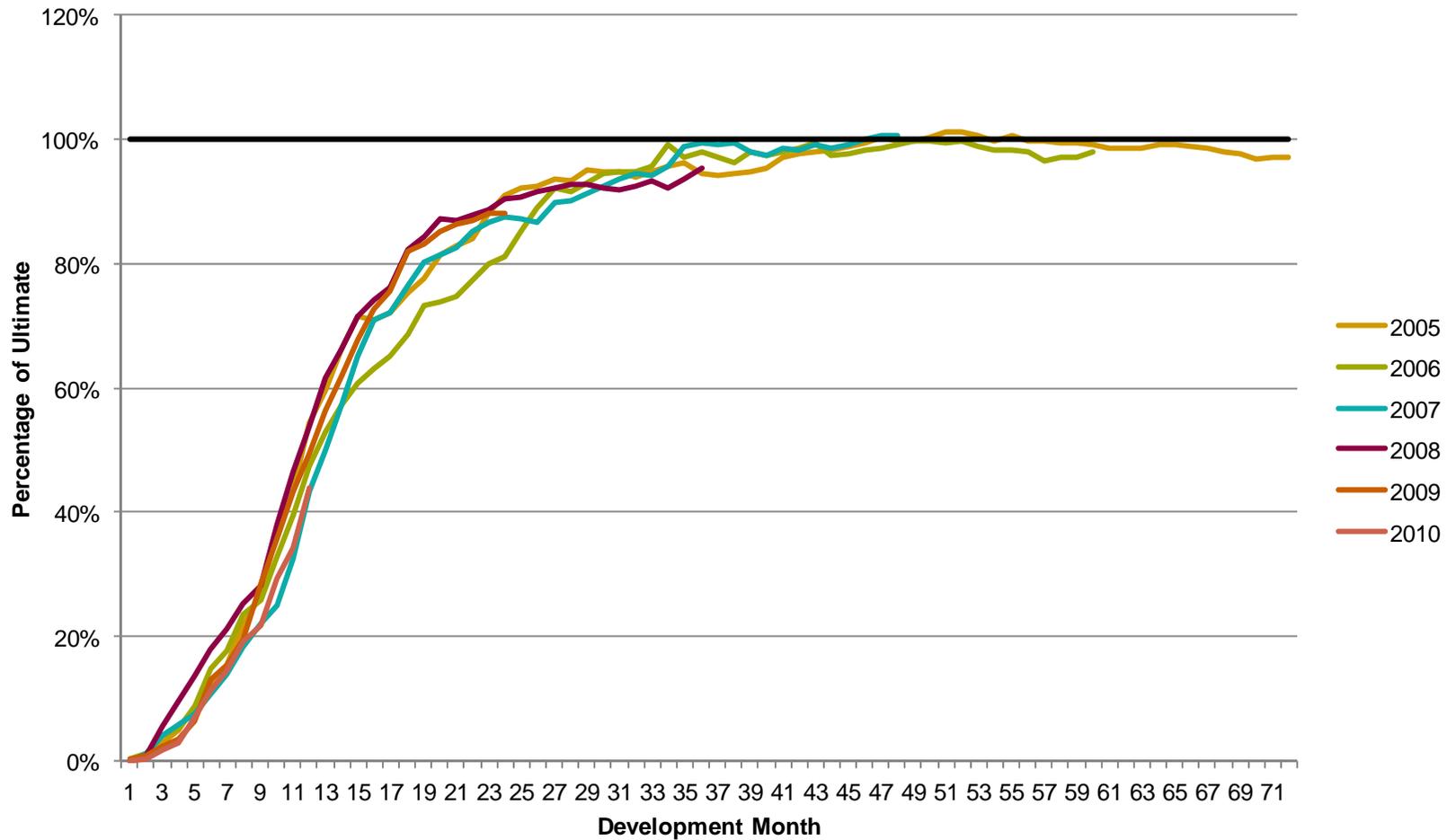
# Excess of Capped TPI Analysis Projected Ultimate Claims

## Excess TPI Claim Numbers - Percentage of Ultimate



# Excess of Capped TPI Analysis Projected Ultimate Claims

## Excess TPI Incurred Claims - Percentage of Ultimate



# Excess of Capped TPI Analysis

## Projected Ultimate Claims – By Layer

Private Car Comprehensive Excess Results in Layer

Accident Year	£100k - 250k	£250k - 500k	£500k - 1m	£1m - 2m	£2m - 5m	> £5m
<b>Frequency (in layer and above)</b> (claims per million vehicle years)						
2002	68.0	27.7	14.1	6.9	3.0	0.8
2003	67.3	27.4	13.0	5.7	2.3	0.7
2004	65.4	26.6	12.7	5.8	3.1	0.7
2005	70.9	26.4	13.2	6.0	2.8	0.6
2006	71.9	28.2	14.5	6.8	3.7	1.0
2007	83.5	33.1	16.7	6.4	3.2	1.0
2008	82.5	32.4	16.6	6.9	3.9	1.6
2009	90.7	35.0	19.4	9.7	5.8	2.2
2010	87.5	33.8	17.7	7.2	4.3	2.5
<b>Average Cost</b> (£000s)						
2002	93	171	343	614	1,643	3,802
2003	92	174	321	586	1,524	1,358
2004	92	170	339	718	1,532	1,712
2005	88	175	328	643	1,197	1,736
2006	89	168	336	667	1,653	1,880
2007	92	171	315	635	1,556	2,838
2008	90	173	332	630	1,841	2,271
2009	90	178	352	657	1,656	1,842
2010	90	175	325	661	1,669	2,382
<b>Burning Cost</b> (£)						
2002	6.3	4.7	4.8	4.2	4.9	3.2
2003	6.2	4.8	4.2	3.3	3.6	1.0
2004	6.0	4.5	4.3	4.2	4.7	1.1
2005	6.2	4.6	4.3	3.8	3.4	1.0
2006	6.4	4.7	4.9	4.6	6.1	1.9
2007	7.7	5.7	5.3	4.1	4.9	2.9
2008	7.5	5.6	5.5	4.4	7.2	3.6
2009	8.1	6.2	6.8	6.4	9.5	4.1
2010	7.9	5.9	5.8	4.8	7.2	6.0

# Excess of Capped TPI Analysis

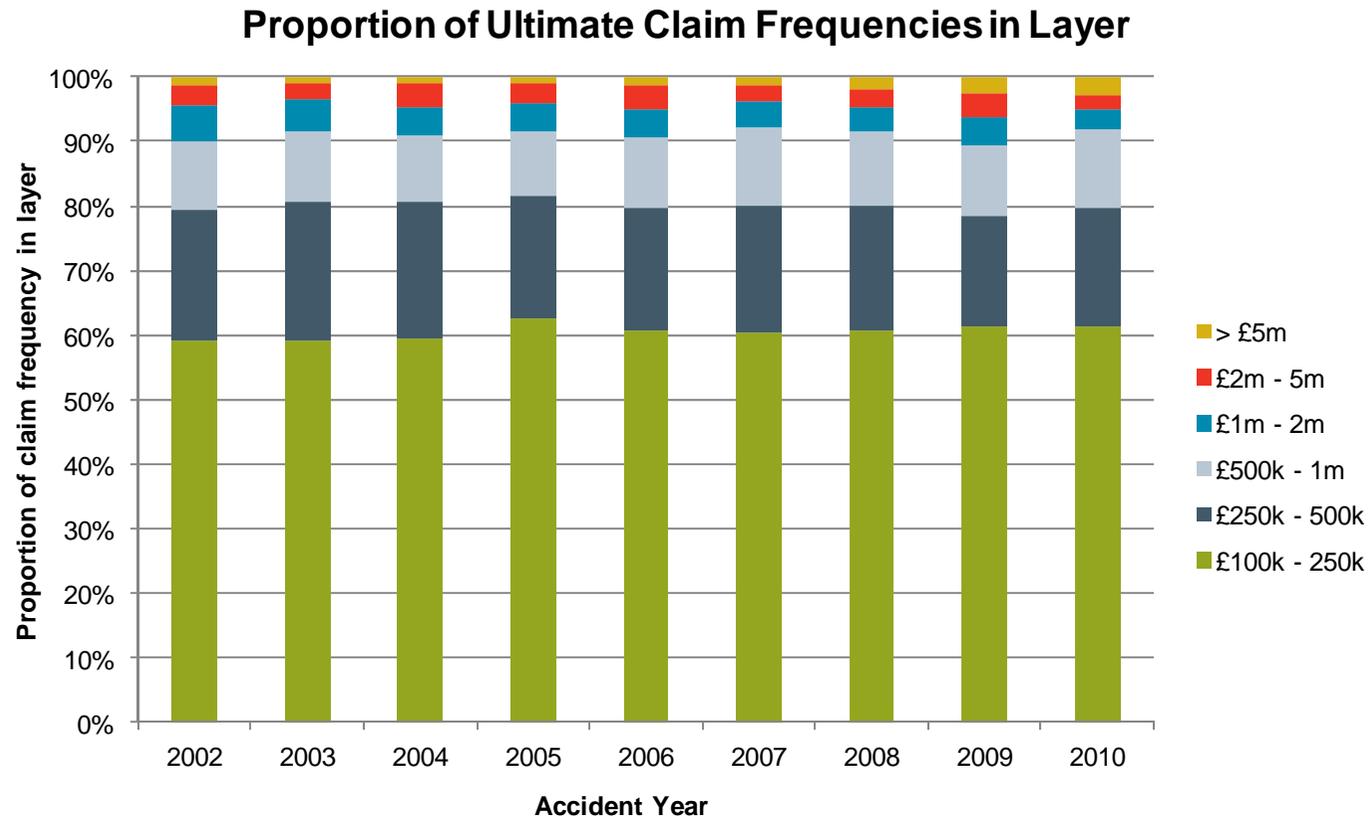
## Projected Ultimate Claims

Private Car Comprehensive Excess Results in Layer

Accident Year	£100k - 250k	£250k - 500k	£500k - 1m	£1m - 2m	£2m - 5m	> £5m
<b>Proportion of claim numbers in layer above</b>						
2002	41%	51%	49%	43%	28%	
2003	41%	48%	44%	41%	32%	
2004	41%	48%	46%	52%	21%	
2005	37%	50%	45%	47%	21%	
2006	39%	51%	47%	54%	27%	
2007	40%	51%	38%	49%	32%	
2008	39%	51%	42%	57%	40%	
2009	39%	55%	50%	59%	39%	
2010	39%	52%	41%	60%	58%	
<b>Proportion of xs 100k numbers</b>						
2002	100%	41%	21%	10%	4%	1.2%
2003	100%	41%	19%	8%	3%	1.1%
2004	100%	41%	19%	9%	5%	1.0%
2005	100%	37%	19%	8%	4%	0.8%
2006	100%	39%	20%	10%	5%	1.4%
2007	100%	40%	20%	8%	4%	1.2%
2008	100%	39%	20%	8%	5%	1.9%
2009	100%	39%	21%	11%	6%	2.5%
2010	100%	39%	20%	8%	5%	2.9%

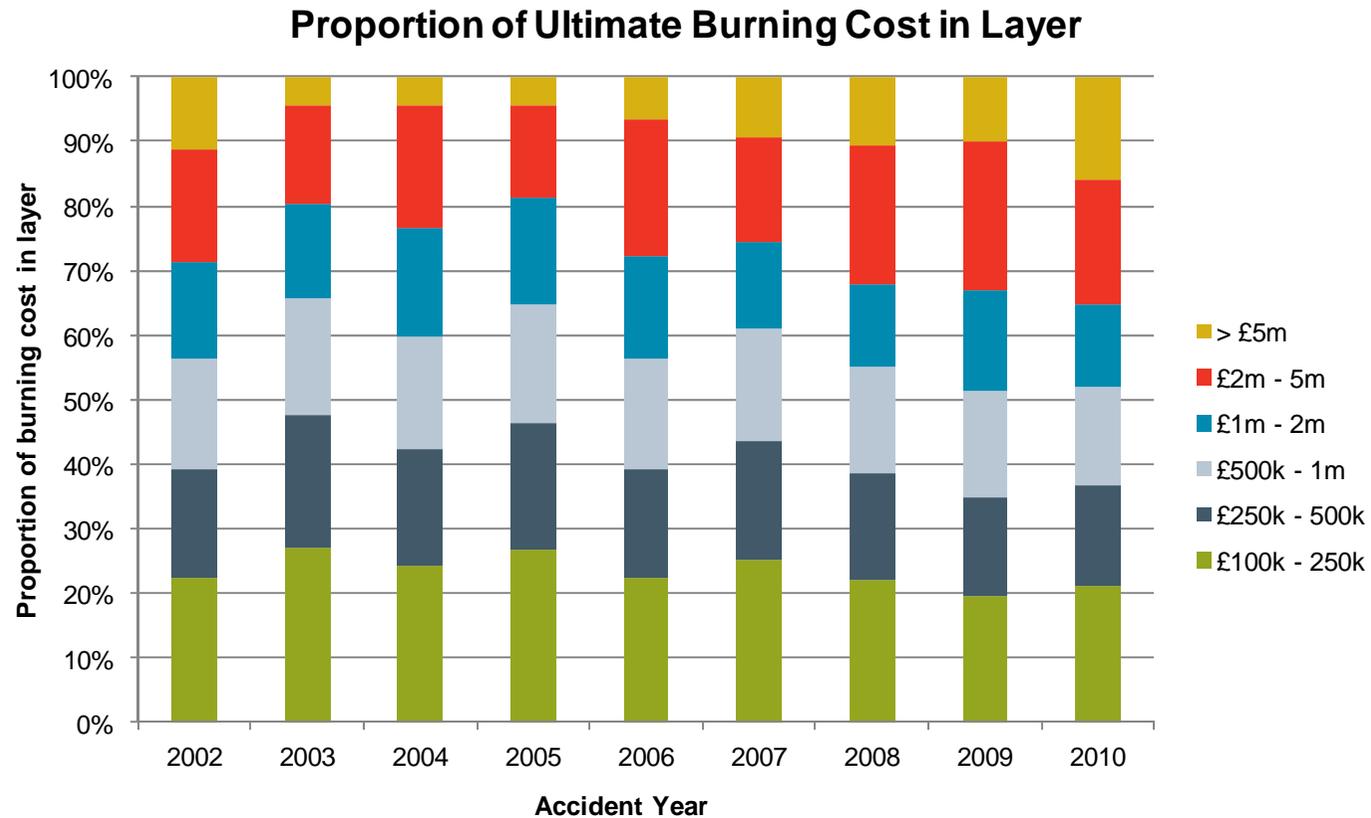
# Excess of Capped TPI Analysis

## Projected Ultimate Claims



# Excess of Capped TPI Analysis

## Projected Ultimate Claims



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# Excess of Capped TPI Analysis

## Projected Ultimate Claims

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- In parallel to these projections, a scenario was considered that took into account the weather event of December 2010
- Under the hypothesis that December 2010 values were backlogged due to processing delays, the input data to our modelling was adjusted
- The results of the scenario are given in the table below
- Under this scenario the projected burning cost for accident year 2010 increases from £37.5 to £40.2.

**Private Car Comprehensive - scenario excess of capped results for accident year 2010**

<b>Frequency</b>	<b>(claims per million vehicle years)</b>	108
<b>Severity</b>	<b>(£)</b>	371,881
<b>Burning Cost</b>	<b>(£)</b>	40.2

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# Excess of Capped TPI Analysis

## Analysis of Largest Claims

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- Average incurred claim cost triangles were constructed for the following subsets of data:
  - Largest 2000 claims for each accident year
  - Largest 1000 claims for each accident year
  - Largest 200 claims for each accident year
  - Largest 200 claims for each accident year, excluding the largest 20
- By taking the largest n claims in each year, the intention is to consider injuries of similar severity to get a measure of inflation for large claims that is undistorted by an increasing frequency of small or mid-range claims or the indexation of thresholds.
- We show the annualised average increases of claim costs over several periods for each of the above subsets

# Excess of Capped TPI Analysis

## Analysis of Largest Claims

Claim severity triangle for Private Car Comprehensive (largest 2,000 claims per accident year)

Loss Year	Development Year (Figures in £000s)							
	1	2	3	4	5	6	7	8
2003	134	172	189	218	222	211	213	216
2004	135	187	213	226	225	230	231	
2005	123	191	207	228	233	232		
2006	134	200	239	257	268			
2007	130	226	262	280				
2008	172	259	284					
2009	203	320						
2010	171							

Annualised Escalation Rates		
3 Year Periods		
2003 - 2006	0%	5%
2004 - 2007	-1%	7%
2005 - 2008	12%	11%
2006 - 2009	15%	17%
2007 - 2010	9%	

5 Year Periods		
2003 - 2008	5%	9%
2004 - 2009	9%	11%
2005 - 2010	7%	

# Excess of Capped TPI Analysis

## Analysis of Largest Claims

Claim severity triangle for Private Car Comprehensive (largest 1,000 claims per accident year)

Loss Year	Development Year (Figures in £000s)							
	1	2	3	4	5	6	7	8
2003	228	291	318	365	379	361	369	375
2004	229	318	363	387	387	400	405	
2005	201	315	345	380	395	397		
2006	227	335	403	436	465			
2007	220	388	452	480				
2008	305	455	494					
2009	358	565						
2010	304							
<b>Annualised Escalation Rates</b>								
<b>3 Year Periods</b>								
2003 - 2006	0%	5%	8%	6%	7%			
2004 - 2007	-1%	7%	8%	7%				
2005 - 2008	15%	13%	13%					
2006 - 2009	16%	19%						
2007 - 2010	11%							
<b>5 Year Periods</b>								
2003 - 2008	6%	9%	9%					
2004 - 2009	9%	12%						
2005 - 2010	9%							

# Excess of Capped TPI Analysis

## Analysis of Largest Claims

Claim severity triangle for Private Car Comprehensive (largest 200 claims per accident year)

Loss Year	Development Year (Figures in £000s)							
	1	2	3	4	5	6	7	8
2003	663	860	891	1,067	1,117	1,111	1,154	1,195
2004	817	1,007	1,121	1,201	1,222	1,316	1,345	
2005	628	955	996	1,122	1,208	1,248		
2006	758	1,067	1,283	1,399	1,538			
2007	603	1,176	1,384	1,463				
2008	1,008	1,468	1,602					
2009	1,190	1,929						
2010	1,060							

Annualised Escalation Rates		
3 Year Periods		
2003 - 2006	5%	7%
2004 - 2007	-10%	5%
2005 - 2008	17%	15%
2006 - 2009	16%	<b>22%</b>
2007 - 2010	<b>21%</b>	

5 Year Periods		
2003 - 2008	9%	11%
2004 - 2009	8%	14%
2005 - 2010	11%	

# Excess of Capped TPI Analysis

## Analysis of Largest Claims

Claim severity triangle for Private Car Comprehensive (largest 200 claims, excluding largest 20 claims, per accident year)

Loss Year	Development Year (Figures in £000s)							
	1	2	3	4	5	6	7	8
2003	434	624	697	825	840	803	813	829
2004	592	774	843	896	902	953	953	
2005	503	733	736	821	889	929		
2006	557	863	995	1,060	1,106			
2007	496	840	1,013	1,063				
2008	774	1,087	1,142					
2009	946	1,496						
2010	635							
<b>Annualised Escalation Rates</b>								
<b>3 Year Periods</b>								
2003 - 2006	9%	11%	13%	9%	10%			
2004 - 2007	-6%	3%	6%	6%				
2005 - 2008	15%	14%	16%					
2006 - 2009	19%	20%						
2007 - 2010	9%							
<b>5 Year Periods</b>								
2003 - 2008	12%	12%	10%					
2004 - 2009	10%	14%						
2005 - 2010	5%							

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# Excess of Capped TPI Analysis

## Analysis of Largest Claims

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- Information on the largest 25 claims (by latest incurred value) for each accident year is also presented
- Latest incurred costs for the most recent years are likely to be under-developed
- In addition to listing the claims below, they are grouped into bands of £1m in size so that the distributions of the largest claims can be assessed by accident year.

# Excess of Capped TPI Analysis

## Analysis of Largest Claims

Private Car Comprehensive - Distribution of largest 25 claims by latest incurred

Accident Year	£2m - £3m	£3m - £4m	£4m - £5m	£5m - £6m	£6m - £7m	£7m - £8m	£8m - £9m	£9m - £10m	£10m+
2002	6	6	4	4	1	-	1	1	2
2003	11	4	1	7	1	-	-	-	1
2004	4	7	6	4	-	3	1	-	-
2005	10	6	3	3	2	-	1	-	-
2006	1	6	7	5	3	1	1	1	-
2007	9	4	6	1	1	-	1	2	1
2008	-	6	9	3	3	3	-	-	1
2009	-	-	10	8	4	2	-	1	-
2010	9	5	1	5	-	2	2	1	-

# Excess of Capped TPI Analysis

## Analysis of Largest Claims

Private Car Comprehensive - Latest incurred value (£000s) of largest 25 claims per accident year (settled claims in red)

Rank	Accident Year								
	2010	2009	2008	2007	2006	2005	2004	2003	2002
1	9,000	9,991	12,498	10,989	9,066	8,258	8,991	11,417	17,102
2	8,528	7,989	7,507	9,989	8,802	6,786	7,585	6,957	15,625
3	8,000	7,393	7,500	9,015	8,000	6,270	7,451	5,673	9,455
4	8,000	6,592	7,497	8,244	6,817	5,719	7,009	5,632	8,180
5	7,488	6,512	6,602	6,929	6,210	5,187	5,064	5,468	6,576
6	5,402	6,341	6,589	5,525	6,165	5,030	5,032	5,399	5,367
7	5,002	6,229	6,230	4,986	5,729	4,912	5,006	5,269	5,314
8	5,000	5,999	5,900	4,958	5,663	4,565	5,000	5,211	5,289
9	5,000	5,997	5,861	4,838	5,513	4,230	4,882	5,000	5,105
10	5,000	5,967	5,575	4,495	5,493	3,611	4,654	4,719	4,978
11	4,750	5,700	4,968	4,250	5,087	3,433	4,540	3,966	4,915
12	3,821	5,234	4,960	4,012	4,924	3,208	4,379	3,831	4,546
13	3,750	5,087	4,793	3,402	4,699	3,053	4,213	3,234	4,044
14	3,169	5,014	4,744	3,207	4,458	3,008	4,010	3,078	3,795
15	3,005	5,000	4,515	3,101	4,428	3,001	3,764	2,922	3,638
16	3,000	4,997	4,501	3,009	4,226	2,918	3,753	2,762	3,543
17	2,997	4,981	4,485	3,000	4,010	2,757	3,708	2,723	3,442
18	2,875	4,949	4,390	2,999	4,007	2,639	3,667	2,639	3,366
19	2,857	4,711	4,152	2,934	3,685	2,531	3,544	2,608	3,033
20	2,658	4,596	3,500	2,842	3,652	2,499	3,397	2,509	2,992
21	2,227	4,398	3,489	2,834	3,573	2,466	3,286	2,249	2,857
22	2,219	4,317	3,472	2,777	3,006	2,417	2,891	2,195	2,697
23	2,101	4,178	3,372	2,670	3,000	2,397	2,644	2,068	2,618
24	2,001	4,019	3,206	2,526	3,000	2,313	2,641	2,066	2,568
25	2,000	4,001	3,024	2,500	2,996	2,292	2,481	2,031	2,462

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# Excess of Capped TPI Analysis

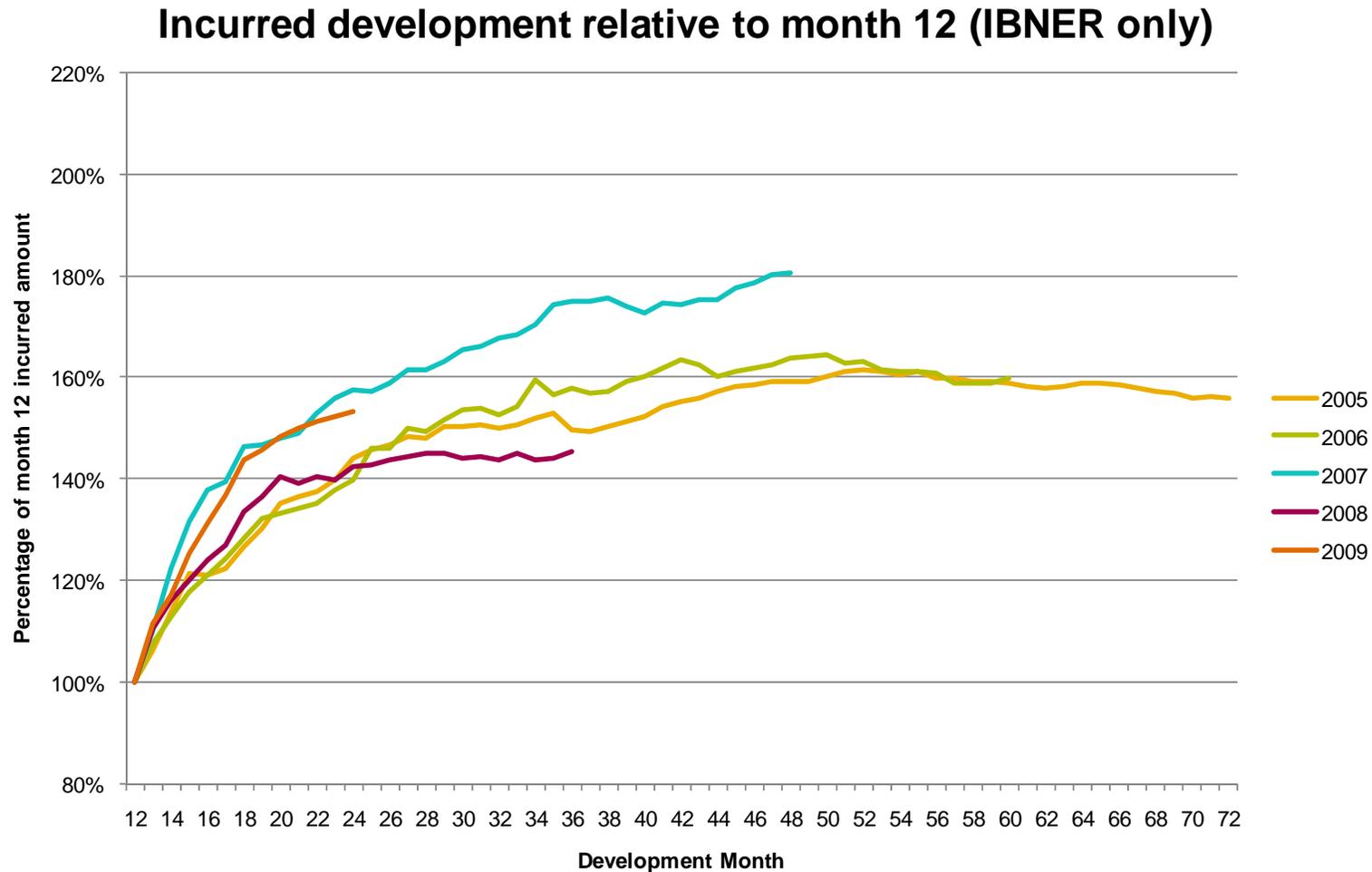
## Adequacy of Case Estimates

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- We extracted claims from the data which had been reported before the end of development year one, and tracked their further incurred development relative to the year one position
- This removes the effect of IBNR claims, allowing the impact of IBNER to the deterioration of claims experience to be separately assessed
- An element of IBNER may be the identification of additional claimants on claims already reported
- The calculation is then repeated using development year two to obtain a view of incurred development relative to the year two position.
- We show here only development beyond year 2

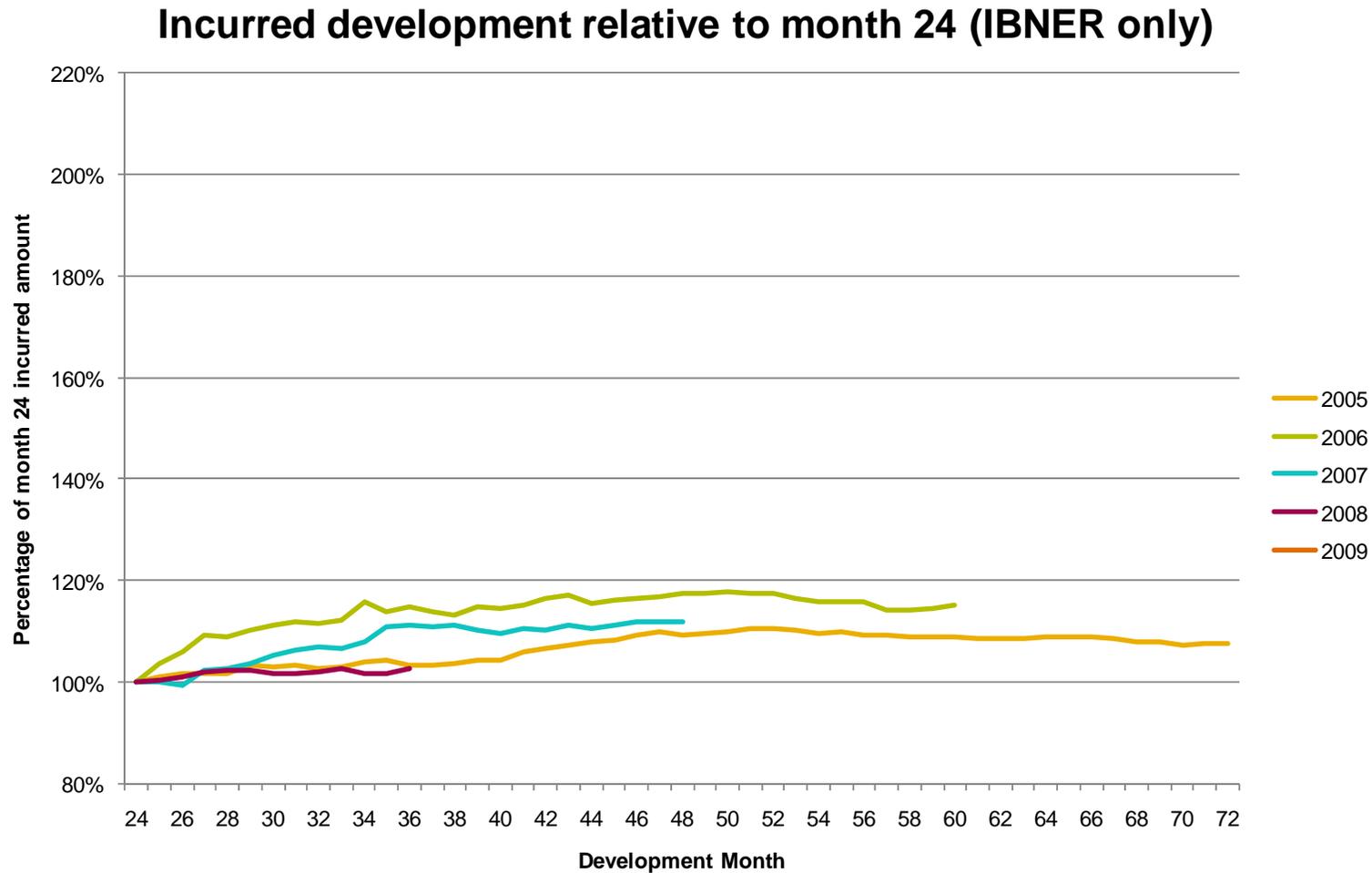
# Excess of Capped TPI Analysis

## Adequacy of Case Estimates



# Excess of Capped TPI Analysis

## Adequacy of Case Estimates



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# Appendices

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1. Raw output from Working Party, including more granular results on large claims analysis
2. Slides from Pricing Seminar

## Update from the Third Party Working Party General Insurance Pricing Seminar, 21 June 2011



General Insurance Pricing Seminar, 21 June 2011

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# Third Party Working Party - Contents

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## 1. Scene Setting

## 2. Key developments since the last study

## 3. Industry Results

### 1. Comp

a) TPD

b) TPI

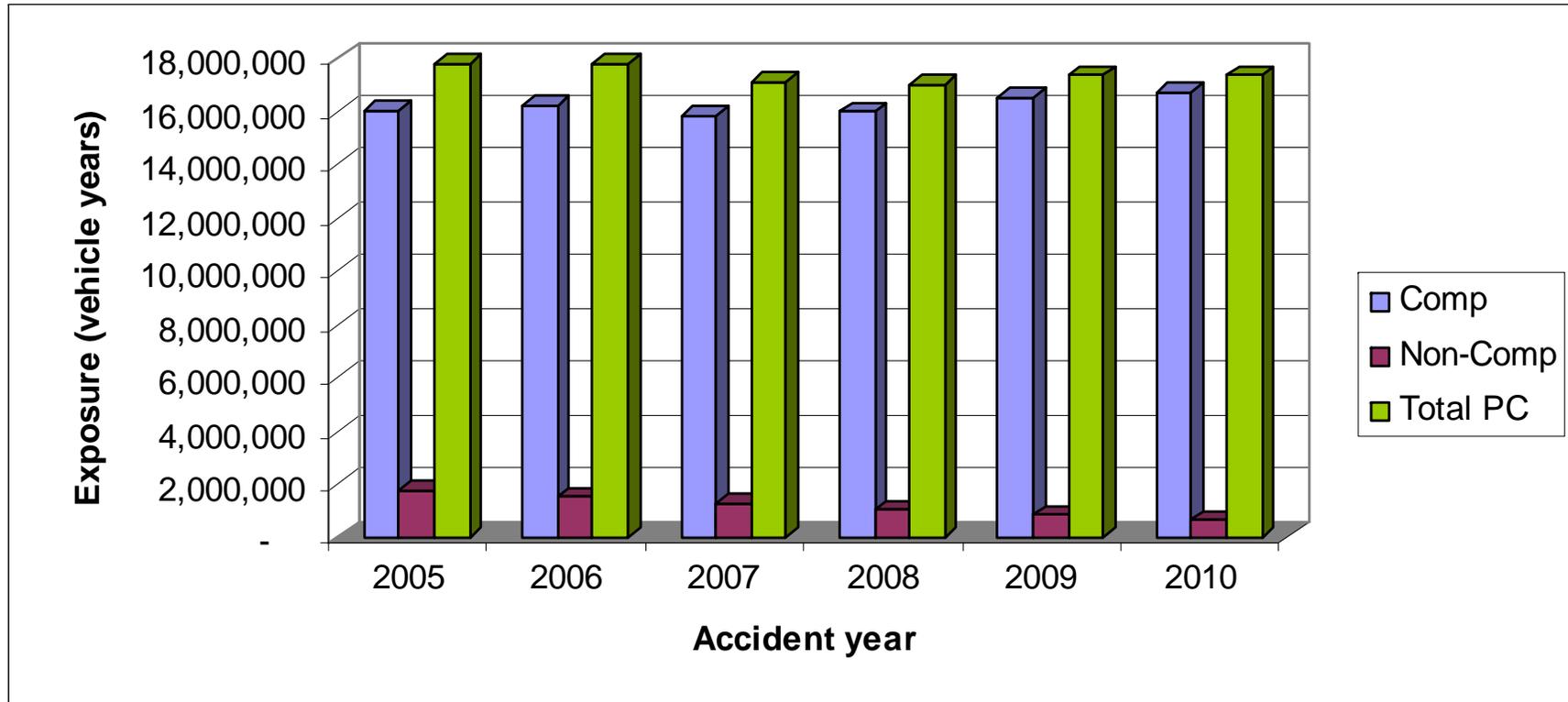
### 2. Non-Comp

a) TPD

b) TPI

## 4. Next Steps of the Working Party

# Comp Exposure up over time: Non-Comp declining strongly



Since 2005

- Comp exposure has increased by 4.2%
- Non-Comp has declined by 63.7%
- Total exposure has reduced by 2.5%

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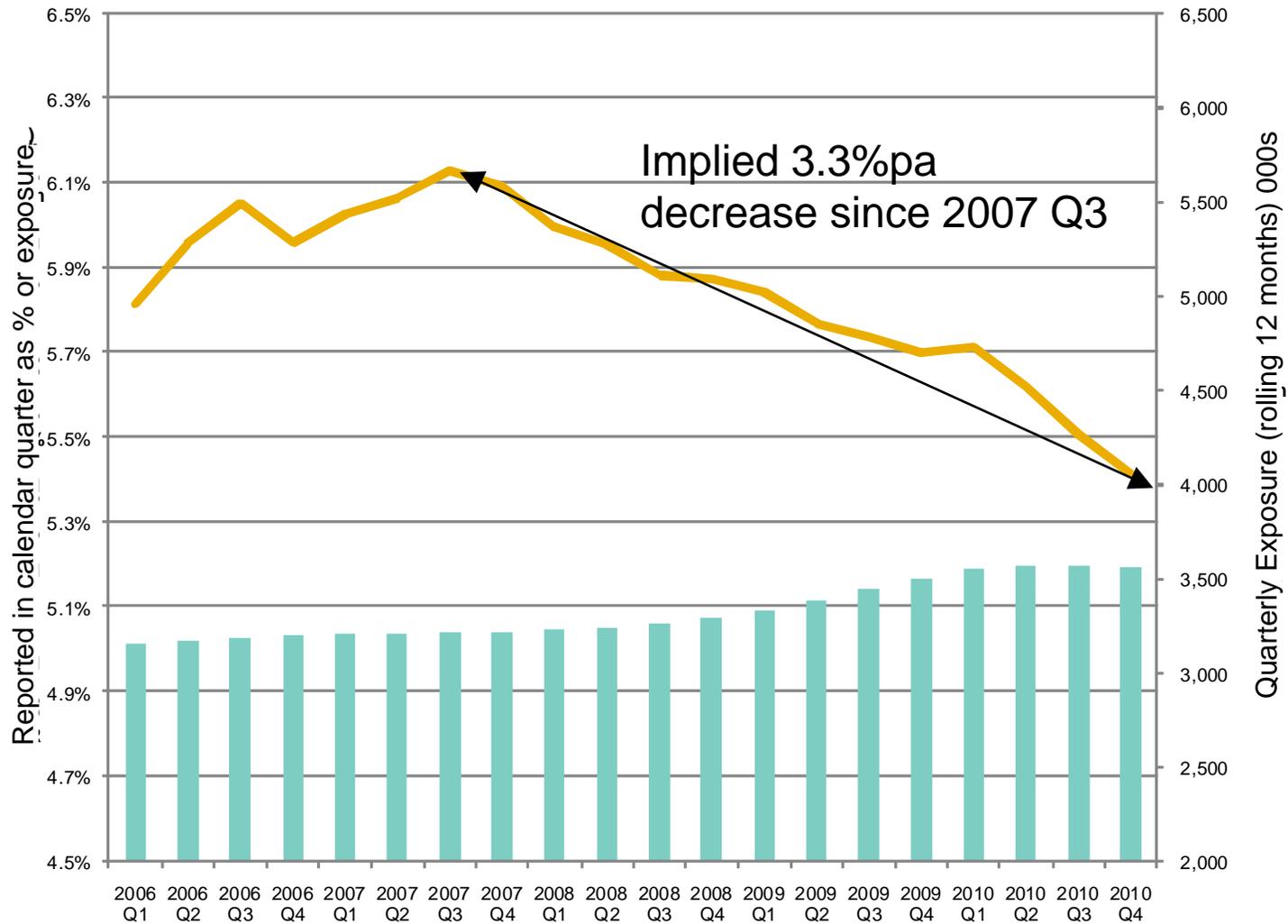
# Notes on Data

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1. Claim Numbers Reported in calendar period as % of exposure
2. Private Car Comprehensive development graphs of key trends, TPD and TPI Capped (at £50k in 1999 money, indexed at 7% p.a.), including a refresh of last year's position based on the latest data for ease of comparison
  - Reported claim frequency
  - Incurred average cost
  - Claim settlement rate
  - Paid to incurred ratio
  - Average cost of settled claims
  - Ratio of TPI to TPD claim numbers.
3. Note that “2009 statistic” refers to the position, as given in the current data, of accident years 2009 and prior as at 2009 year end. This will differ in detail from last year's working party data.

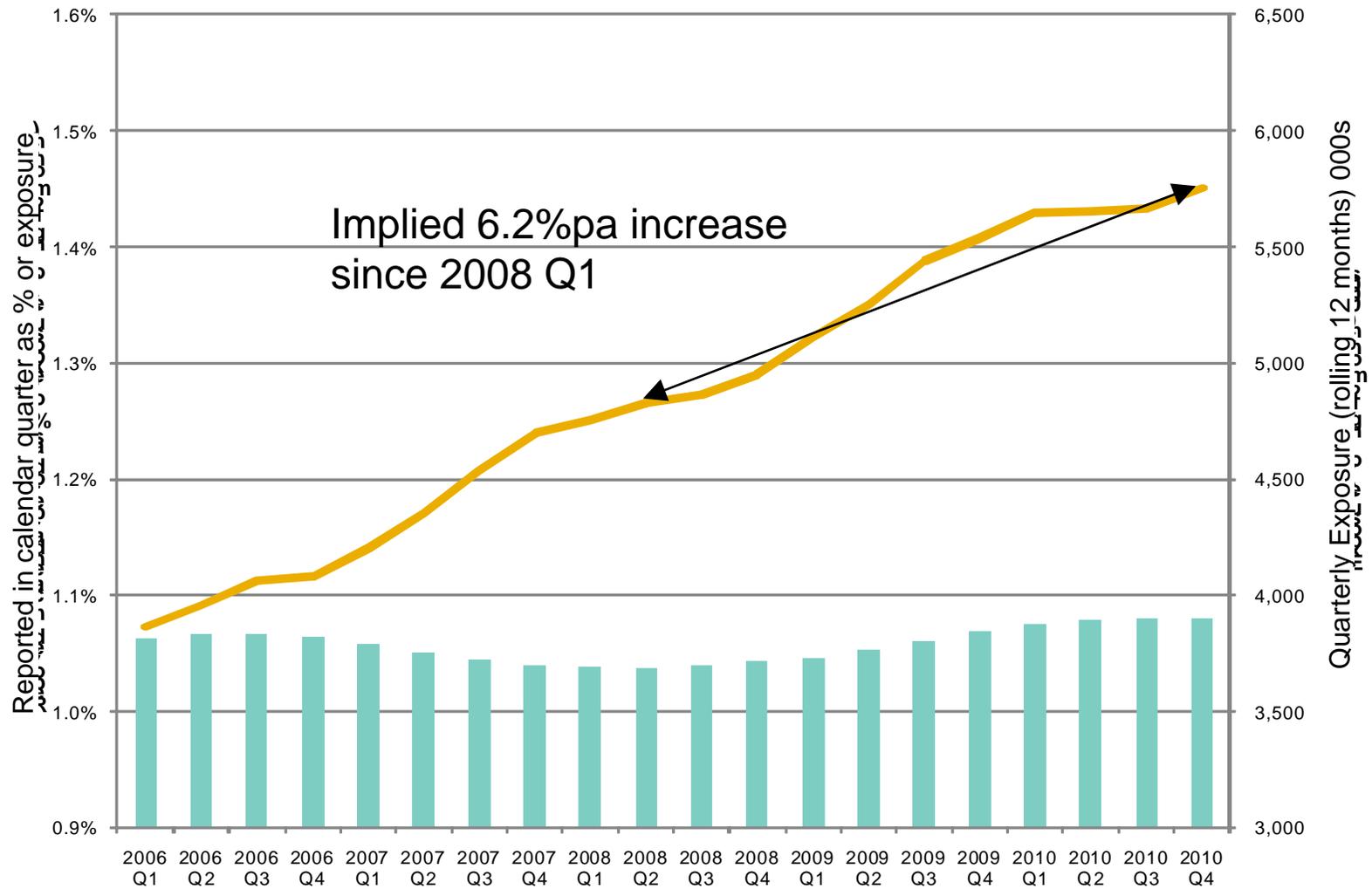
# Comprehensive

TPD - Reported in calendar period as % of exposure (rolling 12 month)



# Comprehensive

TPI Capped - Reported in calendar period as % of exposure (rolling 12 month)



---

# Third Party Working Party - Contents

---

## 1. Scene Setting

## 2. Key developments since the last study

## 3. Industry Results

### 1. Comp

- a) TPD
- b) TPI

### 2. Non-Comp

- a) TPD
- b) TPI

## 4. Next Steps of the Working Party

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## 2. Key Developments since the Last Study

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1. Data from the Compensation Recovery Unit
2. An Update on CMCs
3. Update on MOJ

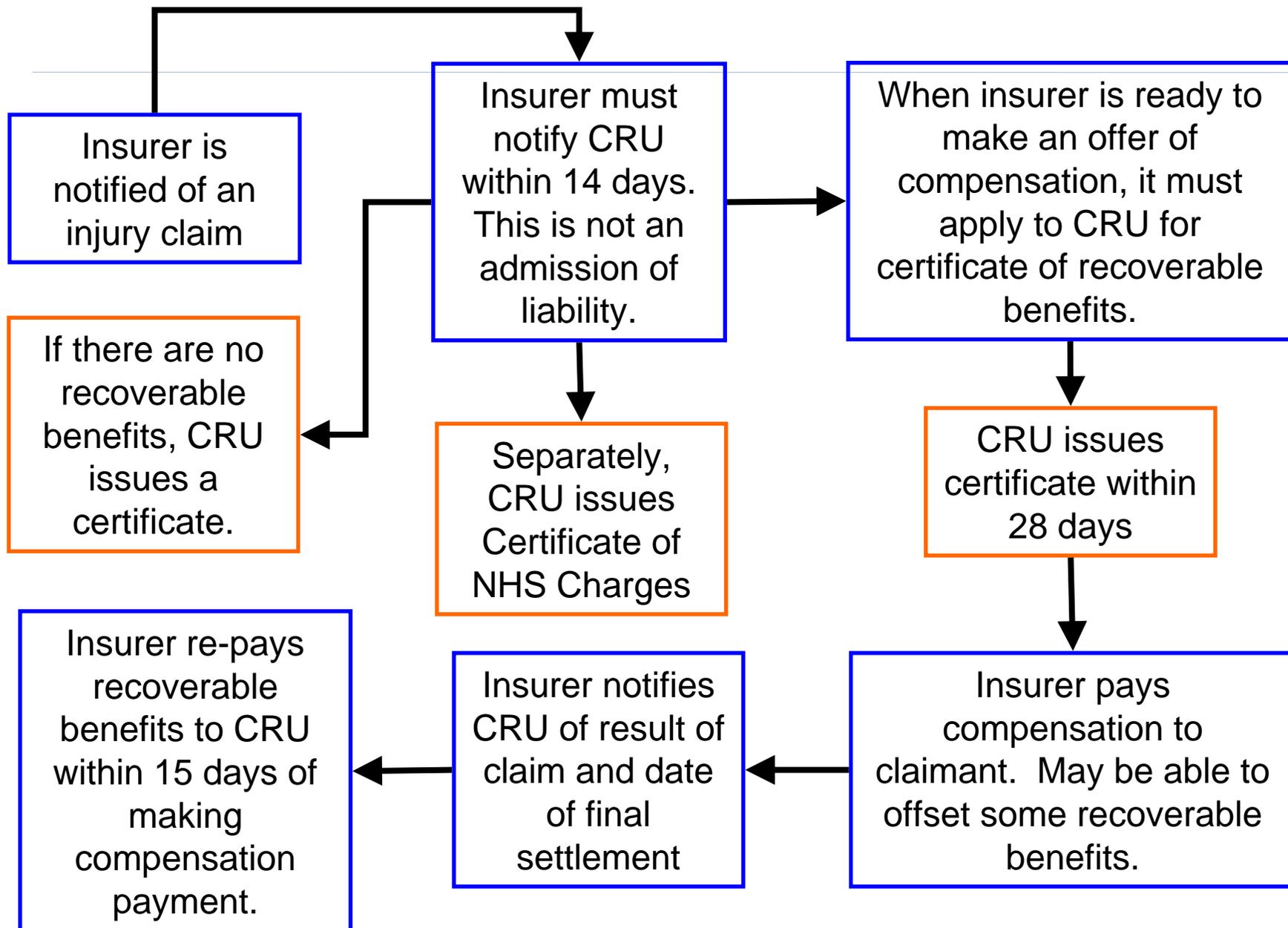
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## 2.1 Data from the Compensation Recovery Unit

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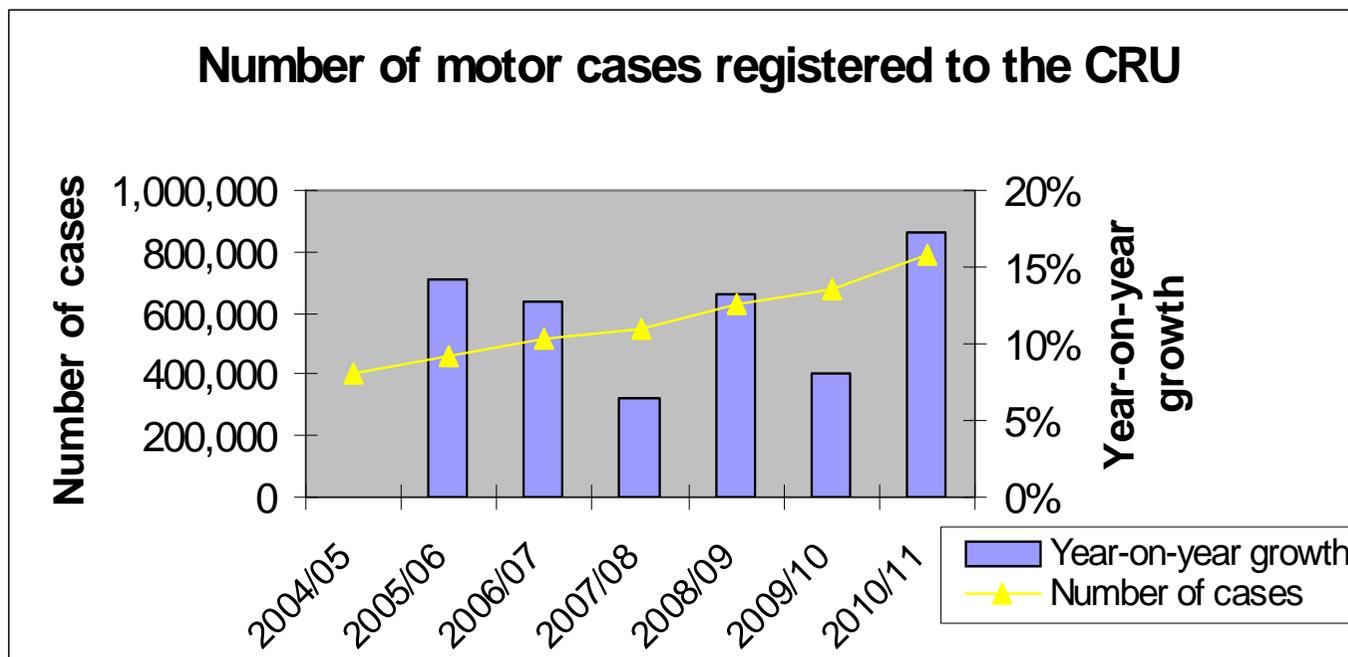
- Insurers must notify the CRU of all claims for compensation in order that the CRU can recover any state benefits paid from the liable insurer.
  - It may be possible for the insurer to offset some of the recoverable benefits paid to the CRU by deducting them from the amount of compensation paid to the claimant to avoid double compensation.
  - This offsetting is restricted within heads of damage so, for instance, claims for loss of earnings can be offset by any jobseeker's allowance, whilst claims for cost of care can be offset by any attendance allowance paid by the Department of Work and Pensions.
- The number of claims notified to the CRU therefore provides a good measure of the total number of injury claims arising from road traffic accidents.
- The recovery of the costs of NHS treatment is also administered by the CRU under a separate scheme.
- A process map for the CRU is shown on the next slide.

# Compensation Recovery Unit



# CRU Data

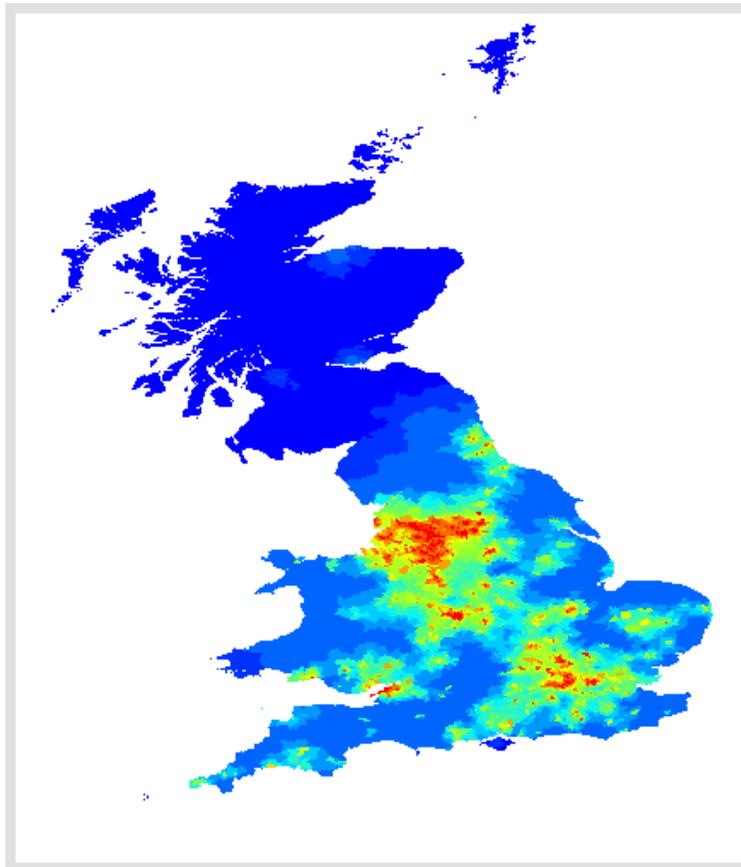
- Number of motor cases registered to the Compensation Recovery Unit has increased in each year
- The number registered in the 2010-11 financial year was 17% higher than in the previous year, the highest recent level of year-on-year growth, but sits in the context of a long term 10% trend
- This is based on registration so may reflect an element of speeding up.



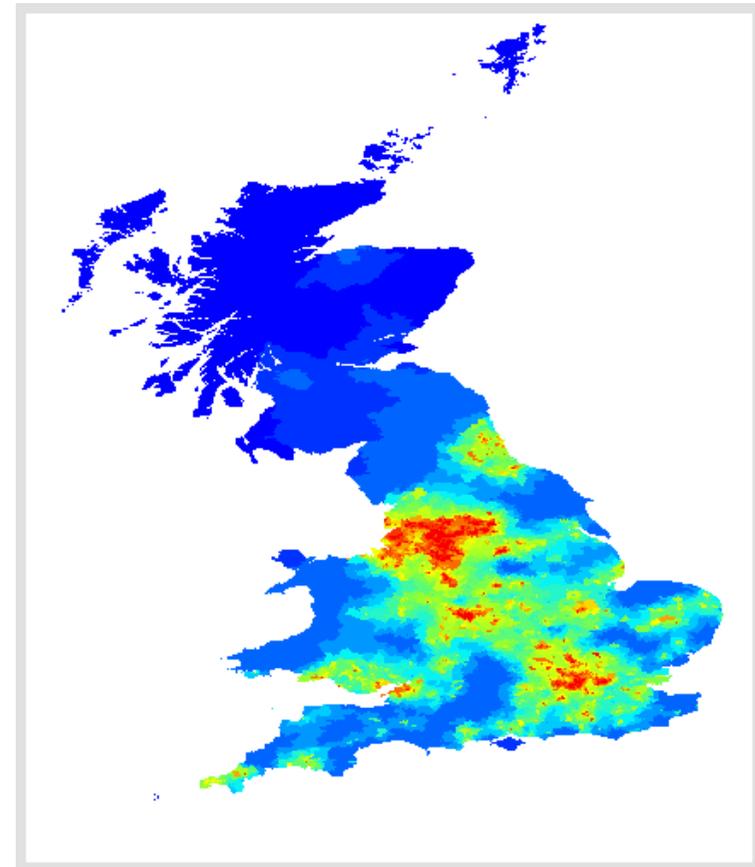
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## CMCs Update: bucking the general economic trend - Authorised CMCs increased by circa 20% (2600 vs 2150)

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2010 CMC Density per head of population: Adjacency smoothed (60)

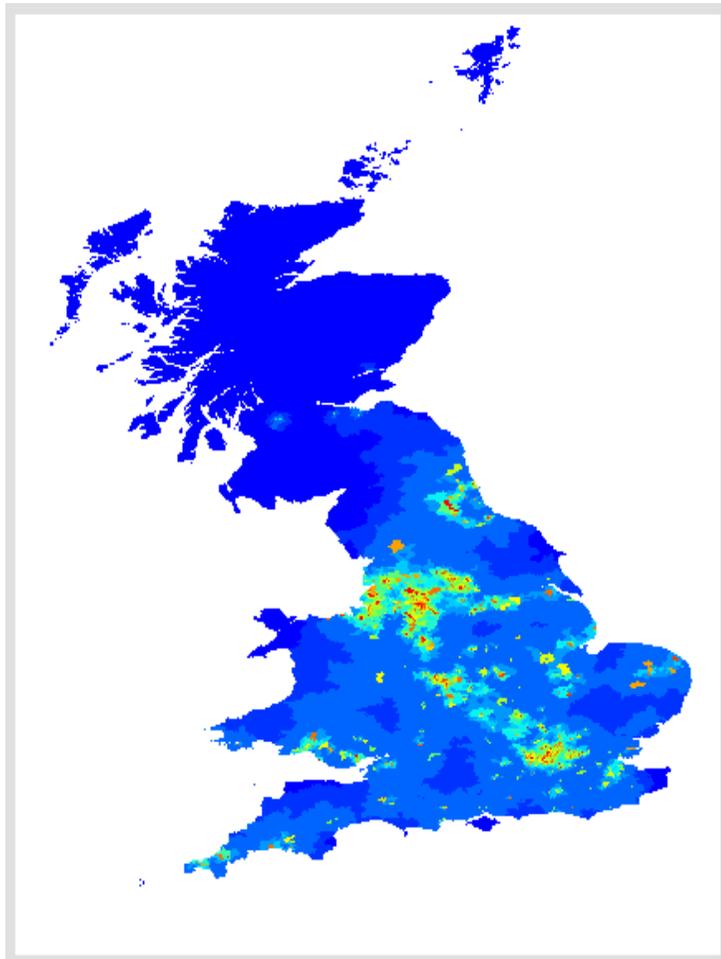


2011 CMC Density per head of population: Adjacency smoothed (60)

Areas of previous high density are also areas of significant growth:  
...**top 20 areas** from 2010 grew by 20% ... Manchester/Liverpool by 50%

---

## CMCs: growth continues; +50% turnover, +20% number



Turnover to Nov 2010 increased by 50% to £377m.

Count of authorised CMCs increased by 20% to 2600 in year to June 2010

Known hotspots continue to see growth:

- the top 20 areas from 2010 have seen around 20% increase

The highest % increases in density are more diverse geographically:

- Manchester and Liverpool both show increases of close to 50%
- strong growth in North East, West of London as well as the likes of Norwich, Exeter and Plymouth.

Some areas have reduced:

- Blackburn and Huddersfield are unusual in showing a reduction in the number of CMCs since 2010.

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## 2.3 Update on Ministry of Justice Reforms

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- Came into effect 30<sup>th</sup> April 2010
- For every £1 paid in compensation, 43p is paid in legal fees
  - for motor claims under £5000, this figure rises to 88p
- Aims to speed up the process of claims settlement and remove duplication of work and costs on the part of solicitors
- Applies to motor injury claims between £1000 and £10000 occurring in England or Wales.
- Strict timescales for an insurer to admit/deny liability and to make offers of settlement. If timescales not met then the claim falls out of the process
- The reduction in legal fees should also mean that solicitors have less capacity to pay referral fees to CMCs

**However, Insurers have some concerns**

# Civil Justice: Consultation, England & Wales

- First major overhaul of the civil justice system in 15 years and reform of 'no win no fee' deals
- To prevent expensive / unnecessary litigation
- Proposals to make the system simpler, quicker, cheaper and more effective **launched for consultation.**
- Include plans to improve how court judgments are enforced
- Other measures include
- Expanding the use of a successful online system to
- Raising the maximum value for small claims from £5,000 to £15,000

- people receive what it is judged they are owed
- crack down on those debtors who won't pay their debts
- abolish recoverability of success fees and associated costs in 'no win no fee' conditional arrangements
- introduce automatic referral to mediation in small claims cases
- mediation awareness sessions in higher-value cases, (to help people avoid court where possible)
- propose to raise the small claims limit and to change the county court jurisdiction so that the High Court is used for bigger and more complex claims only.
- introduce a 10 per cent increase in general damages, and a mechanism to protect the vast majority of personal injury claimants from paying a winning defendant's costs (through qualified one way costs shifting).

- encouraging parties to make and accept reasonable offers
- Introducing a new test to ensure that overall costs are proportionate
- increasing the costs which can be recovered by people who win their cases without representation by lawyers

- slash waiting times and legal expenses using online system.....the time taken to resolve road traffic accident personal injury claims of up to £10,000 has dropped from one year to four months in some cases
- propose expanding the availability of this online system to process Employers' Liability and Public Liability personal injury claims as well as deal with higher value claims of up to £50,000.

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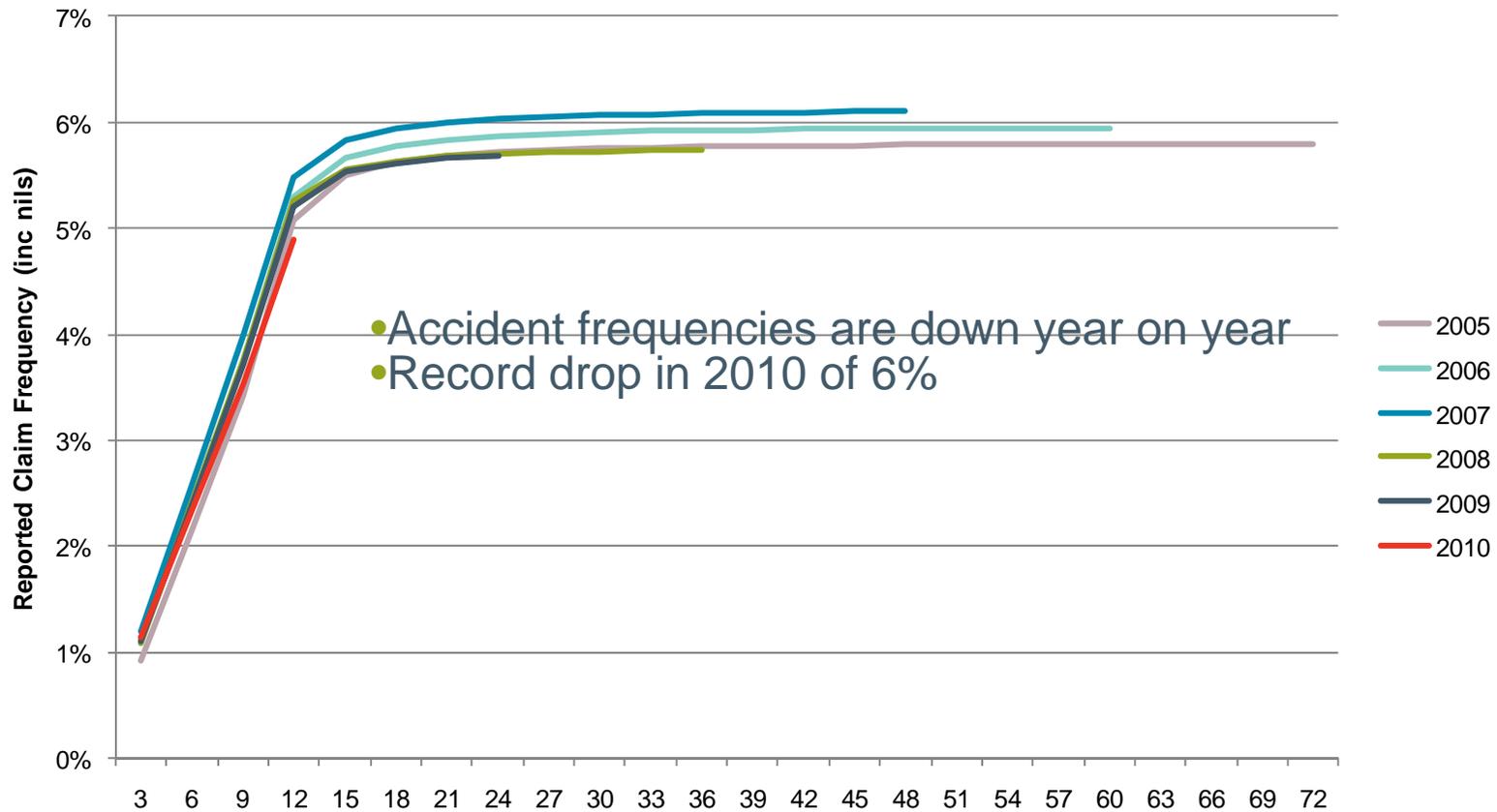
# Third Party Working Party - Contents

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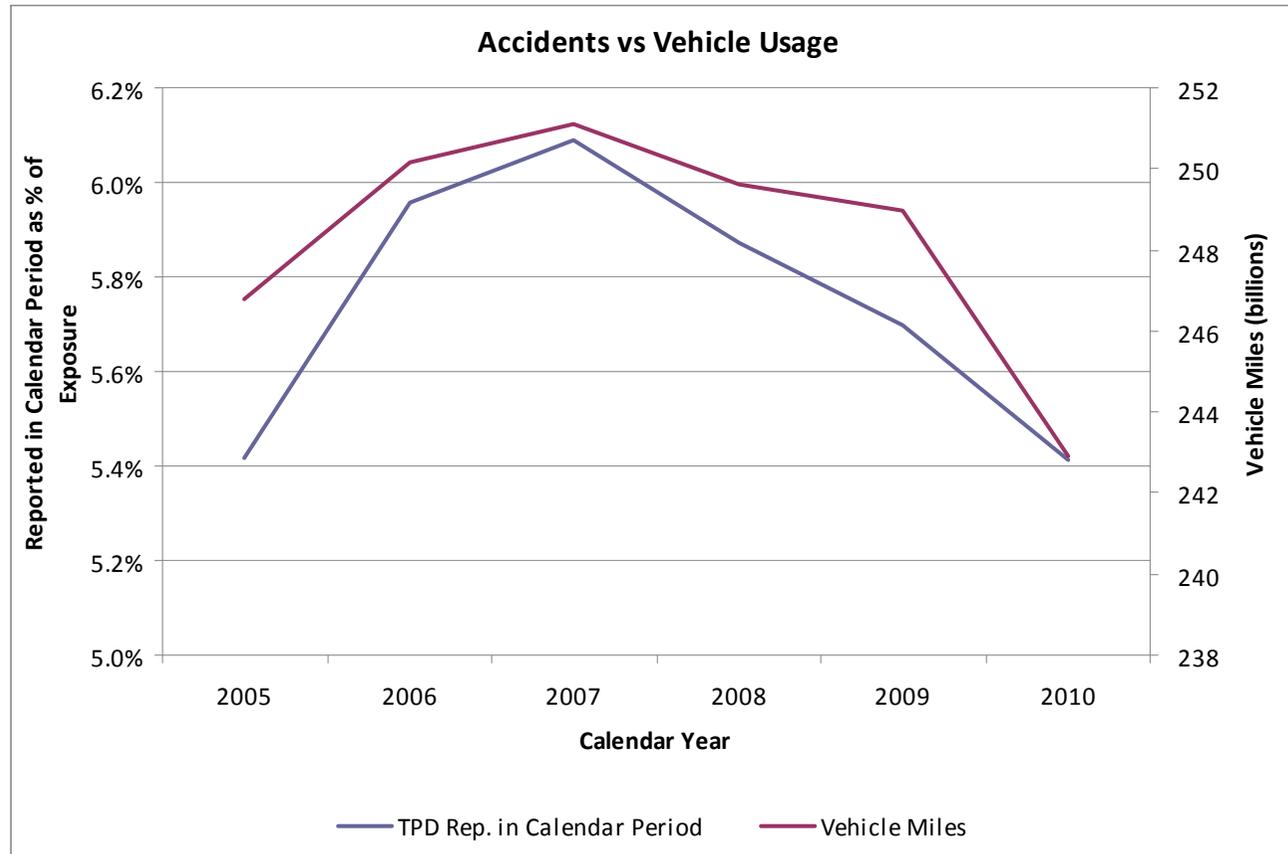
# 2010 Statistic

## Private Car Comp - All Distribution Channels - TPD Reported Claim Frequency (inc nils)



Inflation Rates  
09-10: -6.3% 08-09: -0.3% 07-08: -5.6% 06-07: 2.8% 05-06: 2.7%

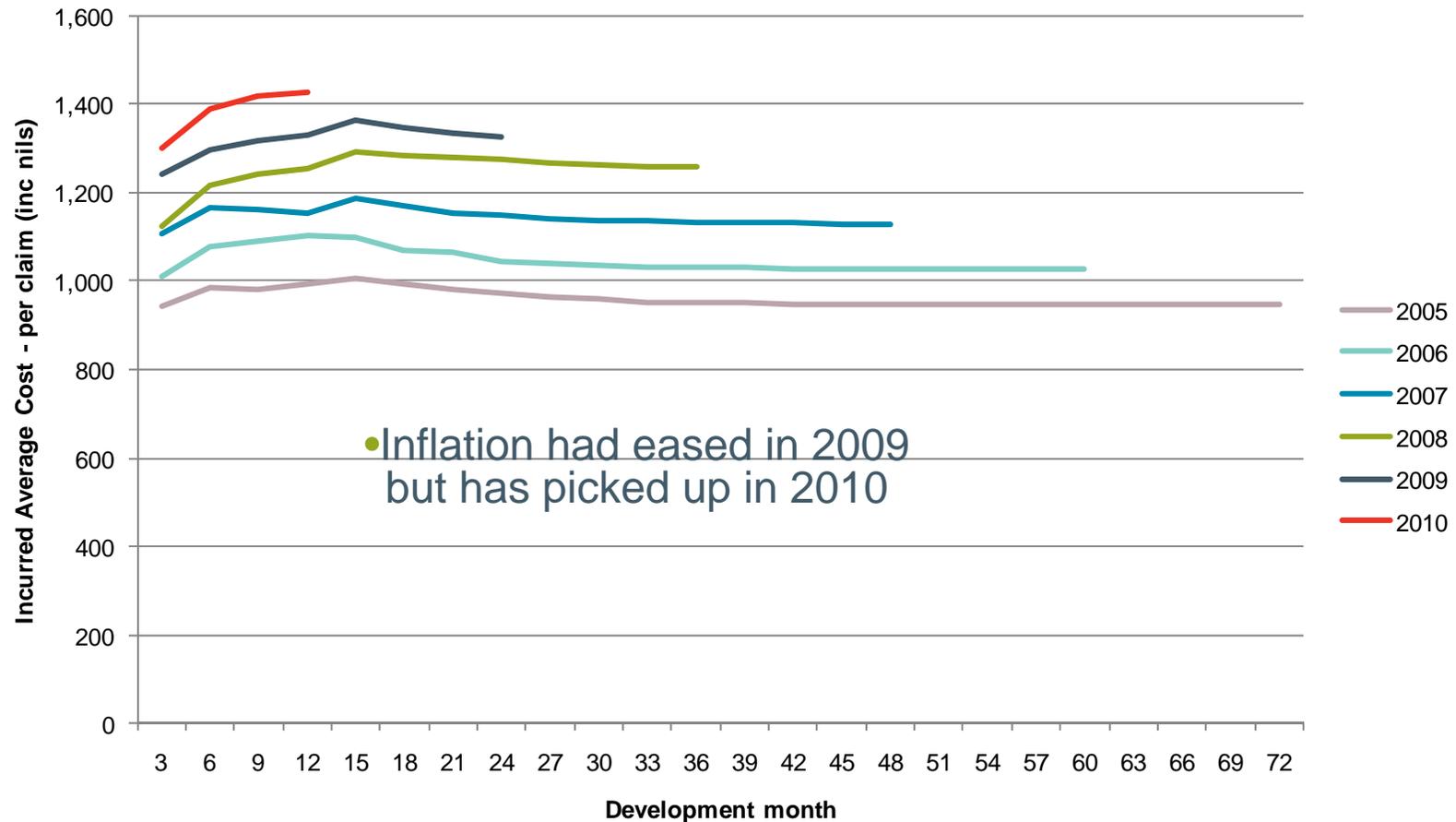
# Unsurprisingly there is a clear relationship between road usage and the number of accidents



# 2010 Statistic

## Private Car Comp - All Distribution Channels - TPD

Incurred Average Cost - per claim (inc nils)

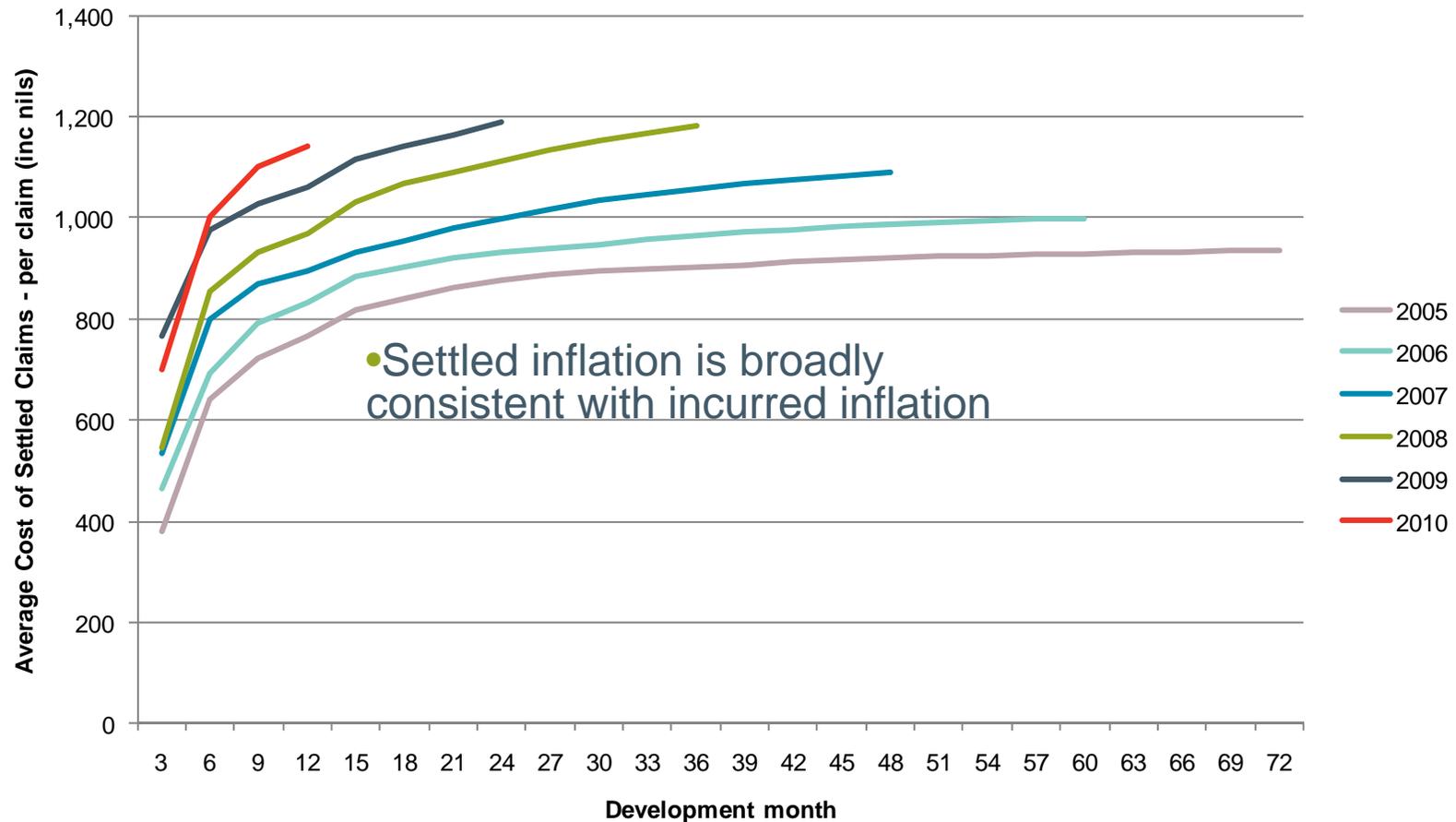


• Inflation had eased in 2009  
but has picked up in 2010

**Inflation Rates**  
09-10: 7.2% 08-09: 4.1% 07-08: 10.9% 06-07: 9.9% 05-06: 8.3%

# 2010 Statistic

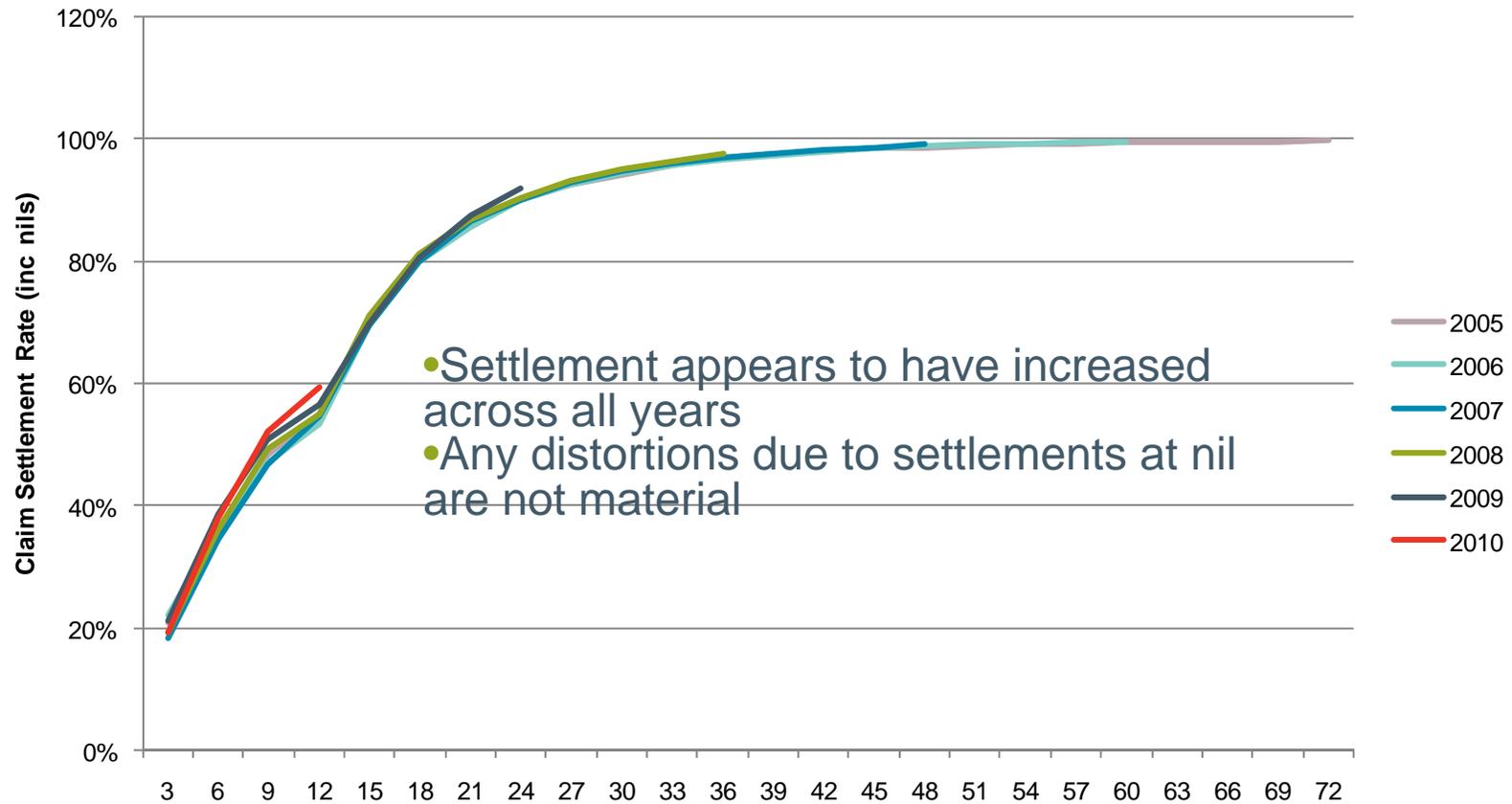
## Private Car Comp - All Distribution Channels - TPD Average Cost of Settled Claims - per claim (inc nils)



Inflation Rates  
09-10: 7.6% 08-09: 7% 07-08: 12% 06-07: 10.2% 05-06: 7.5%

# 2010 Statistic

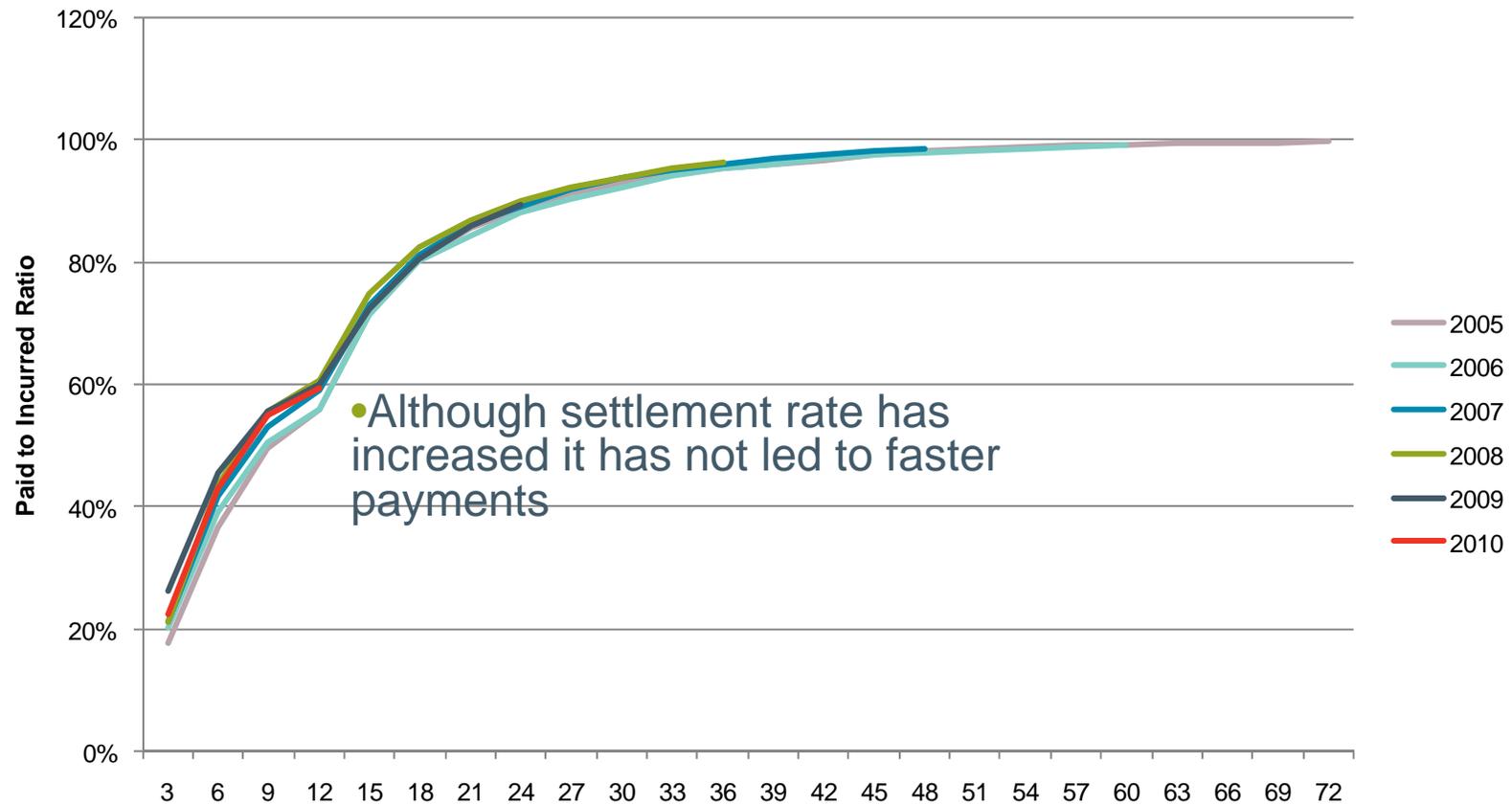
## Private Car Comp - All Distribution Channels - TPD Claim Settlement Rate (inc nils)



Inflation Rates  
09-10: 5.1% 08-09: 1.4% 07-08: 0.7% 06-07: 0.3% 05-06: 0.2%

# 2010 Statistic:

## Private Car Comp - All Distribution Channels - TPD Paid to Incurred Ratio



Development month

Inflation Rates

09-10: -1.3% 08-09: -0.6% 07-08: 0.2% 06-07: 0.7% 05-06: -0.1%

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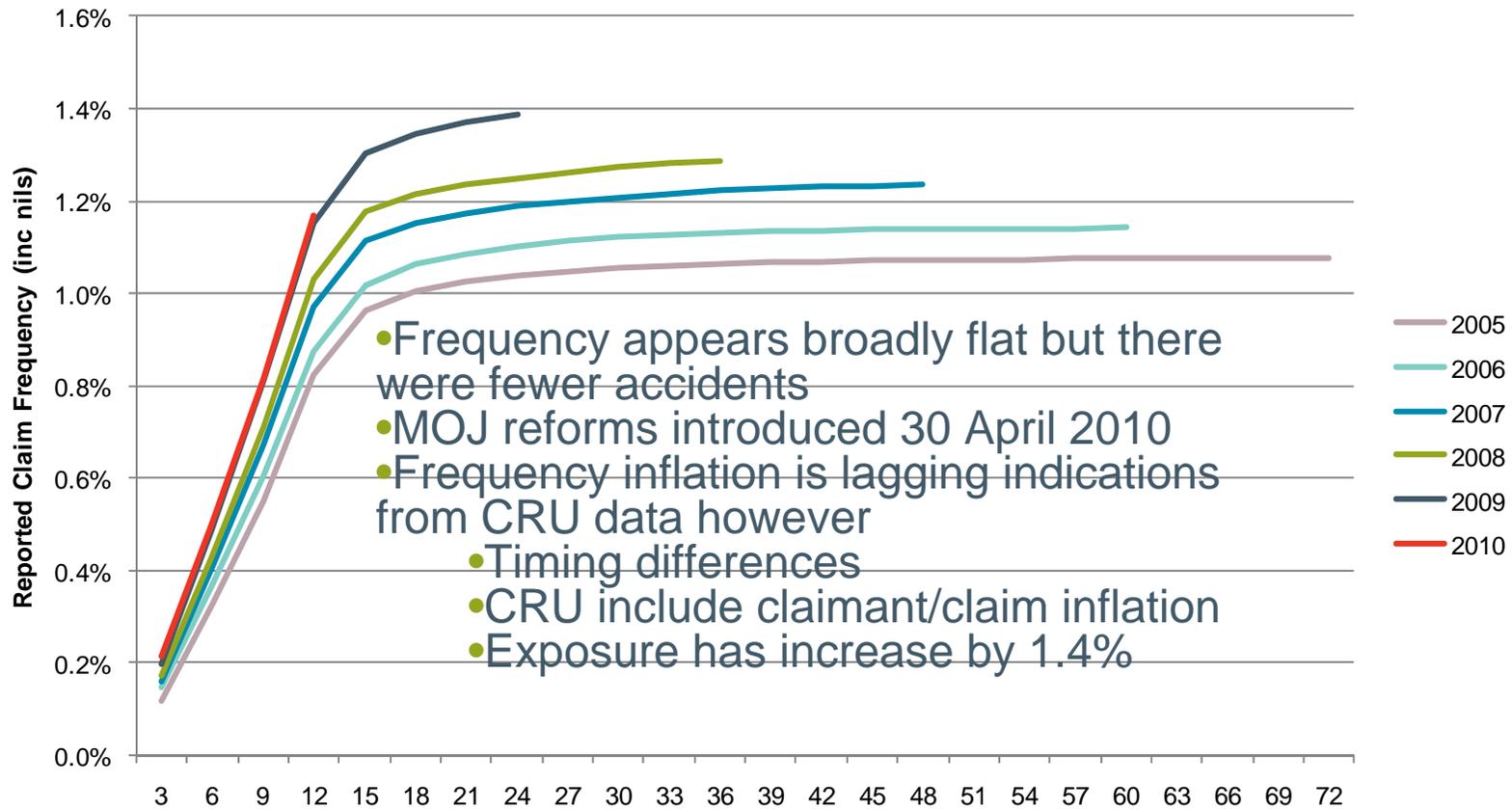
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# 2010 Statistic

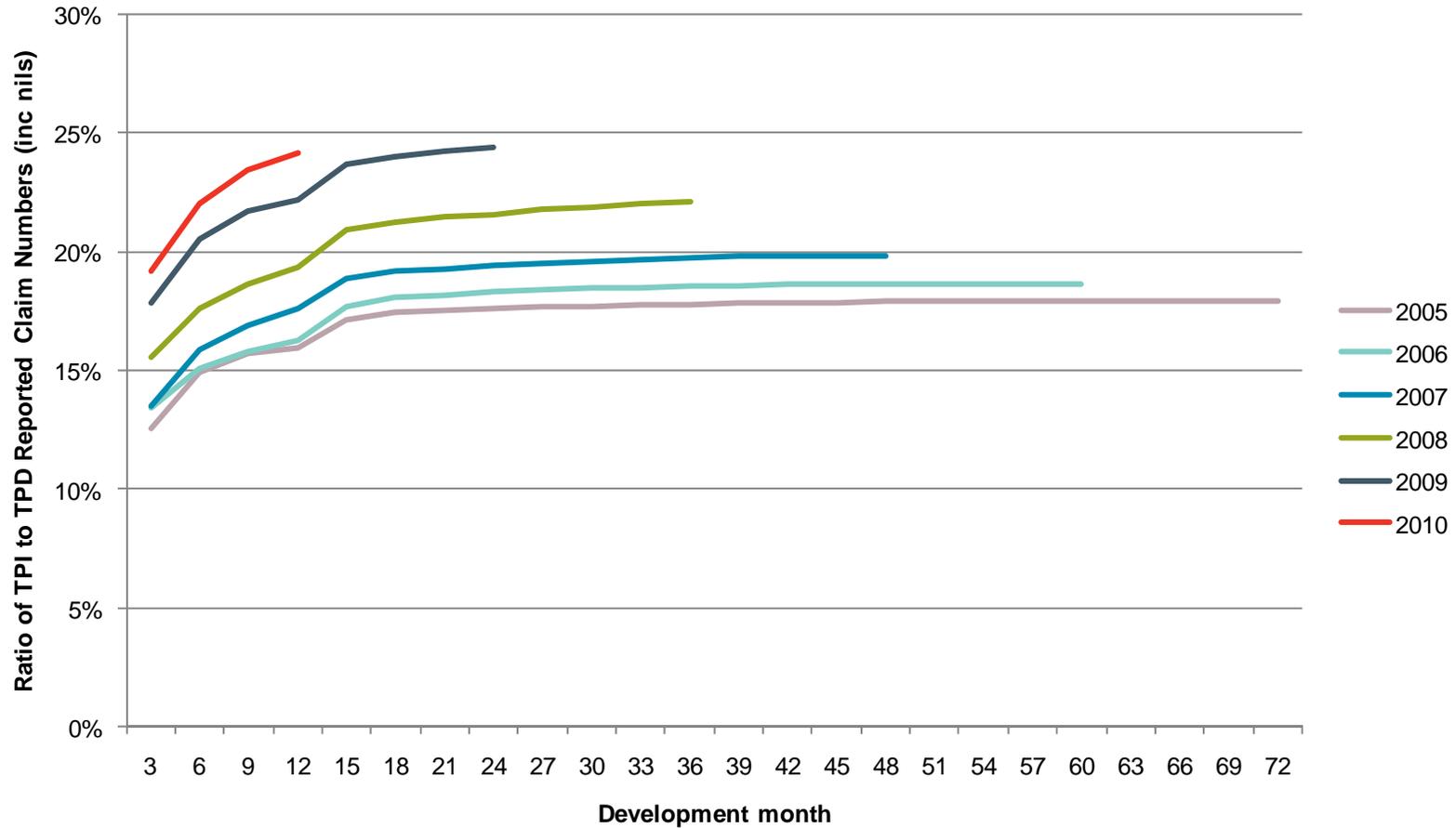
## Private Car Comp - All Distribution Channels - TPI Capped Reported Claim Frequency (inc nils)



Inflation Rates  
09-10: 1.4% 08-09: 11% 07-08: 5.4% 06-07: 8.3% 05-06: 6.2%

# 2010 Statistic

## Private Car Comp - All Distribution Channels Ratio of TPI to TPD Reported Claim Numbers (inc nils)

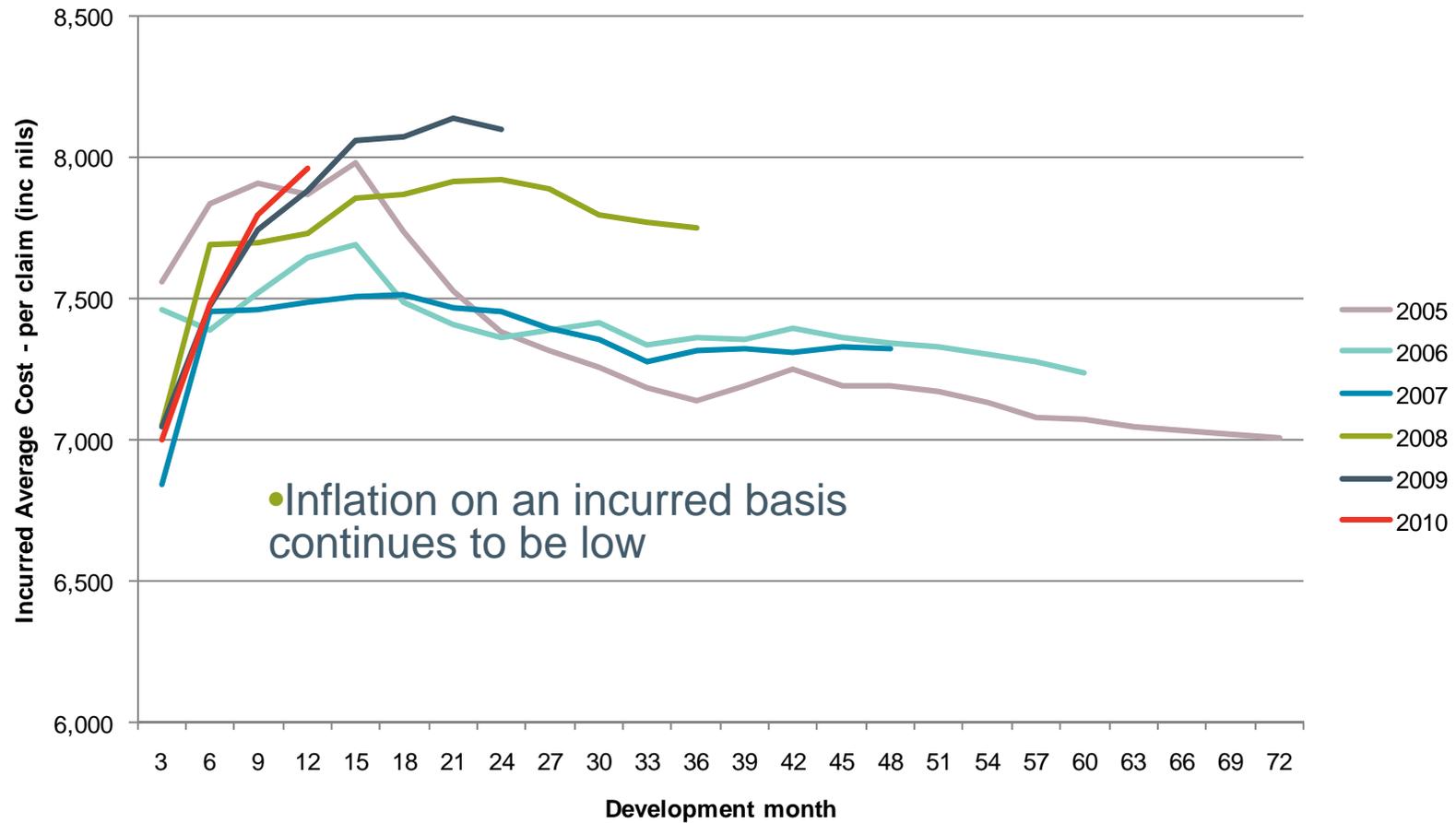


Inflation Rates  
09-10: 9.1% 08-09: 13.2% 07-08: 12% 06-07: 6.5% 05-06: 4.1%

# 2010 Statistic

## Private Car Comp - All Distribution Channels - TPI Capped

Incurred Average Cost - per claim (inc nils)

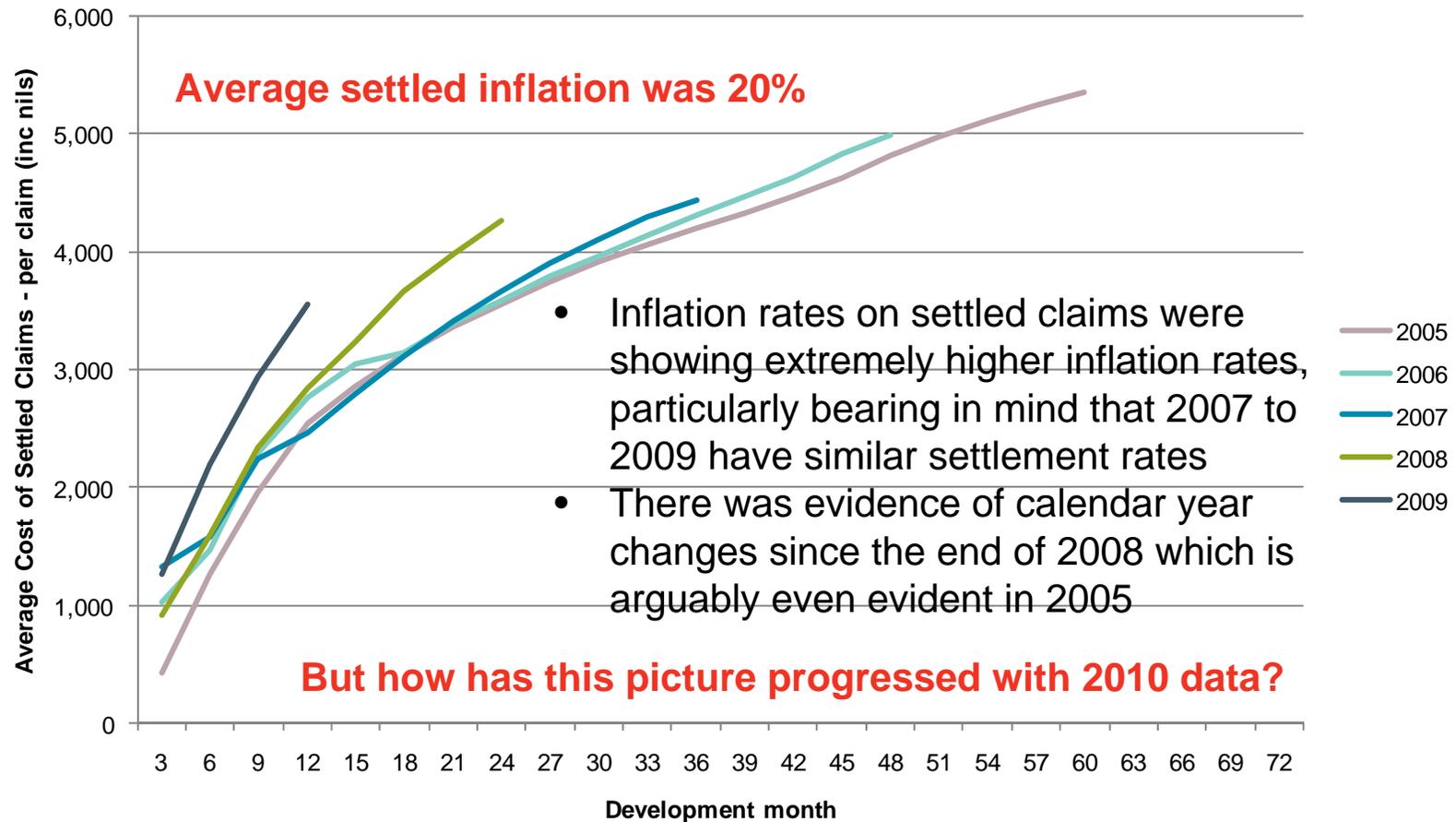


Inflation Rates  
 09-10: 1.1% 08-09: 2.2% 07-08: 6% 06-07: -0.3% 05-06: 2.4%

# 2009 Statistic (using latest data)

## Private Car Comp - All Distribution Channels - TPI Capped

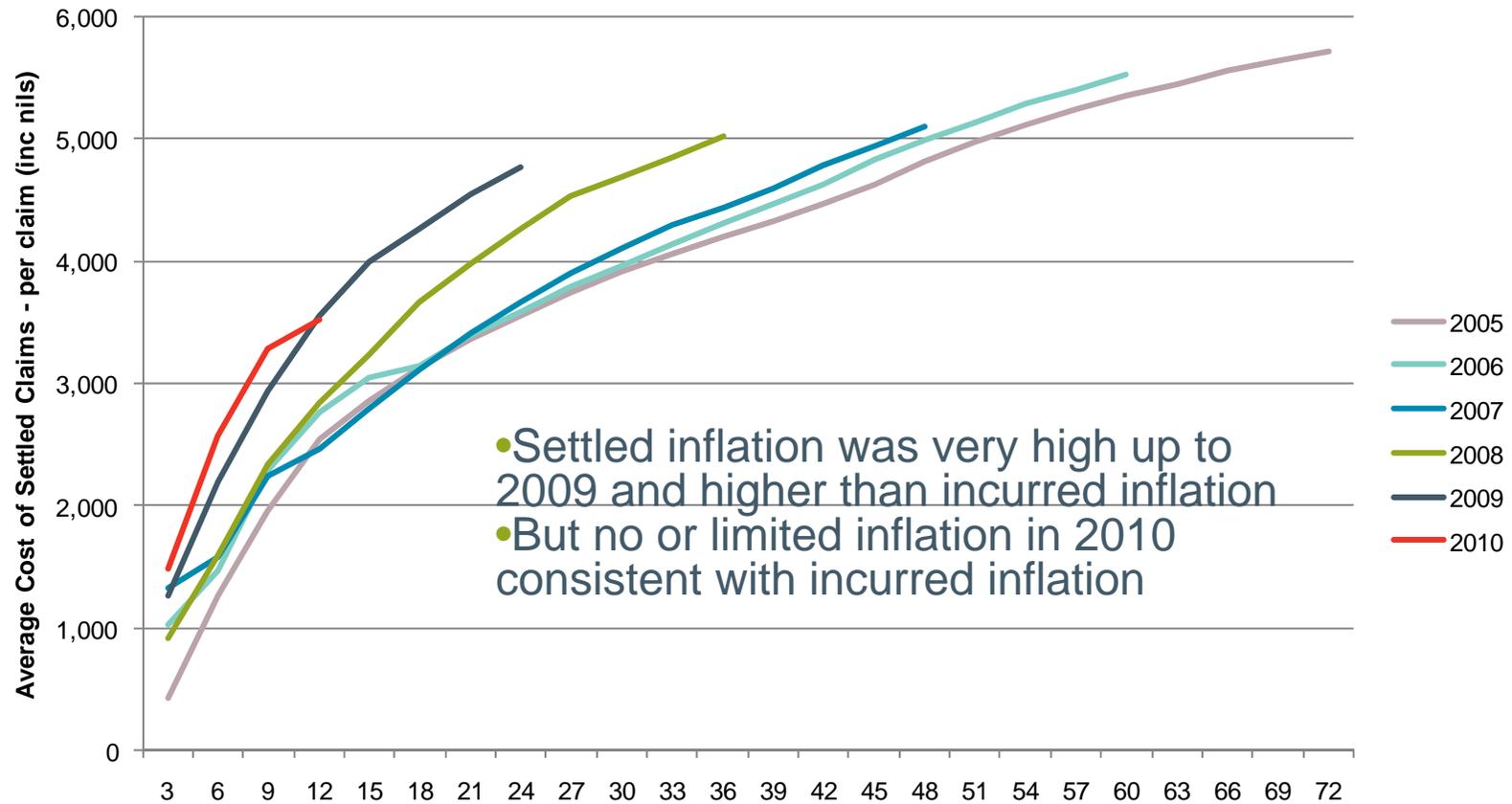
Average Cost of Settled Claims - per claim (inc nils)



**Inflation Rates**  
08-09: 25.2% 07-08: 16.1% 06-07: 3% 05-06: 3.7%

# 2010 Statistic

**Private Car Comp - All Distribution Channels - TPI Capped**  
Average Cost of Settled Claims - per claim (inc nils)



- Settled inflation was very high up to 2009 and higher than incurred inflation
- But no or limited inflation in 2010 consistent with incurred inflation

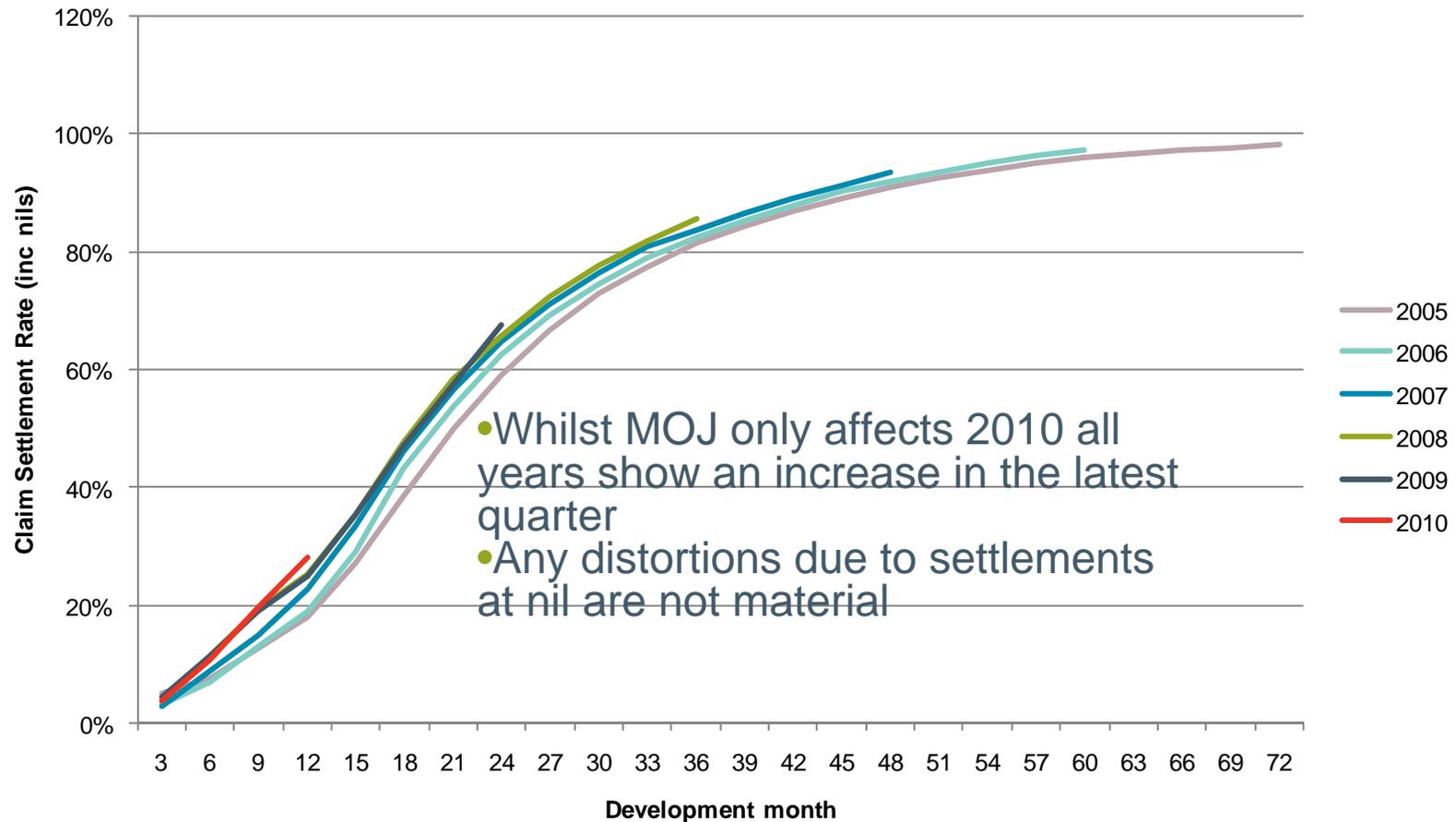
Development month

Inflation Rates

09-10: -1% 08-09: 11.7% 07-08: 12.9% 06-07: 2.3% 05-06: 3.3%

# 2010 Statistic

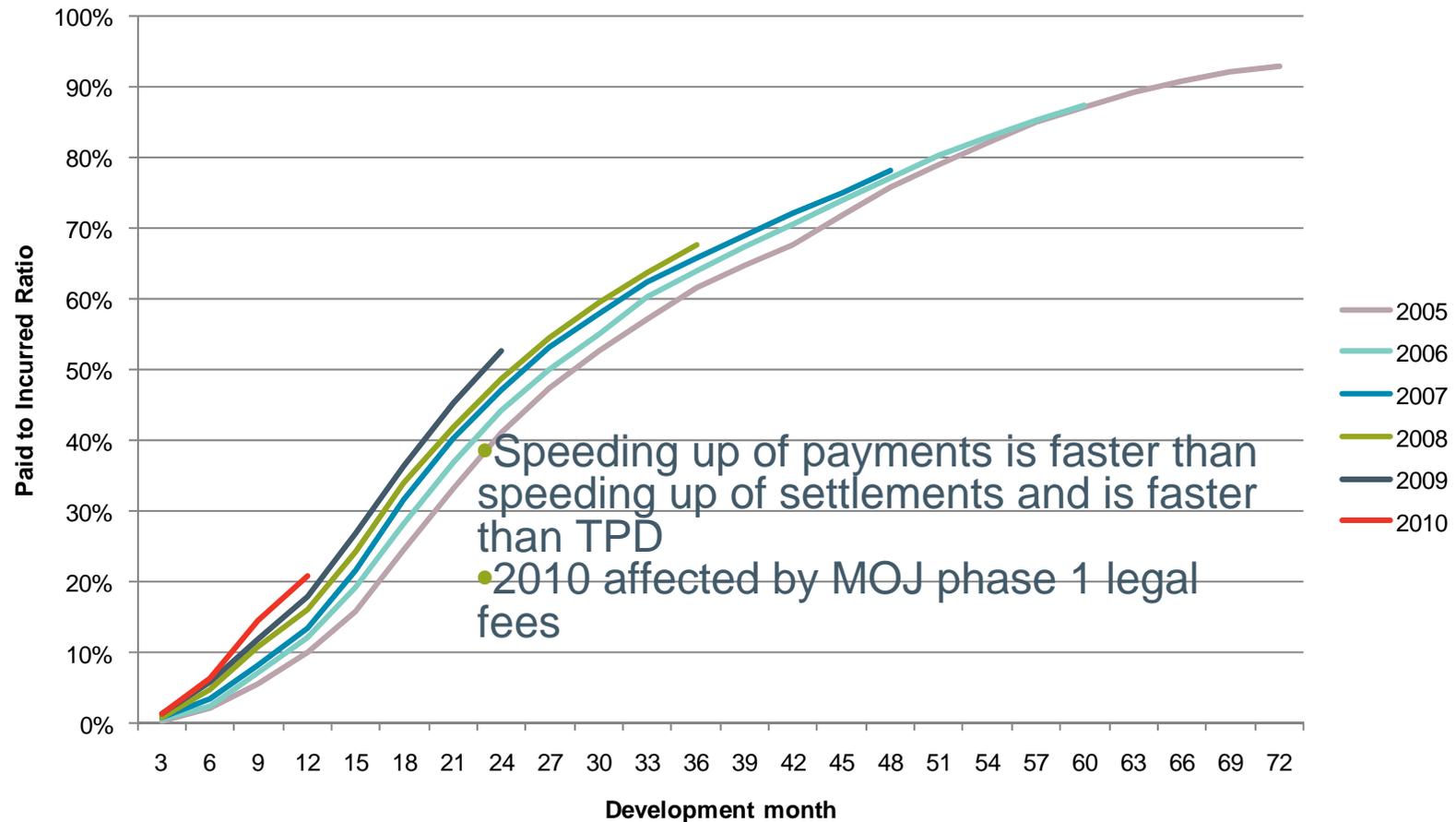
## Private Car Comp - All Distribution Channels - TPI Capped Claim Settlement Rate (inc nils)



**Inflation Rates**  
09-10: 11.7% 08-09: 3% 07-08: 2.2% 06-07: 1.6% 05-06: 1.3%

# 2010 Statistic

## Private Car Comp - All Distribution Channels - TPI Capped Paid to Incurred Ratio



**Inflation Rates**  
09-10: 16% 08-09: 7.9% 07-08: 2.7% 06-07: 1.5% 05-06: 0.4%

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# Third Party Working Party - Contents

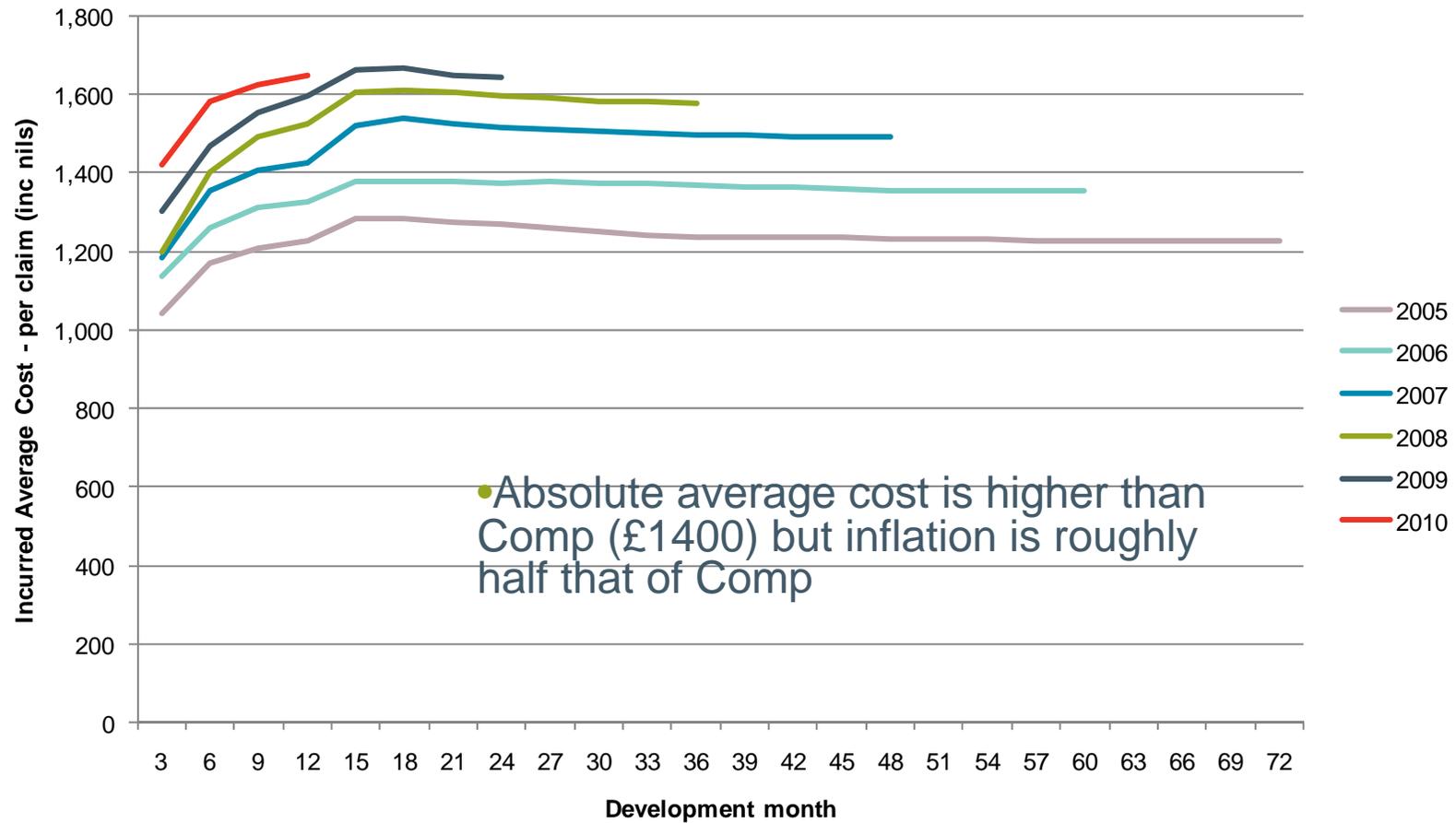
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# 2010 Statistic

## Private Car Non-Comp - All Distribution Channels - TPD

Incurred Average Cost - per claim (inc nils)



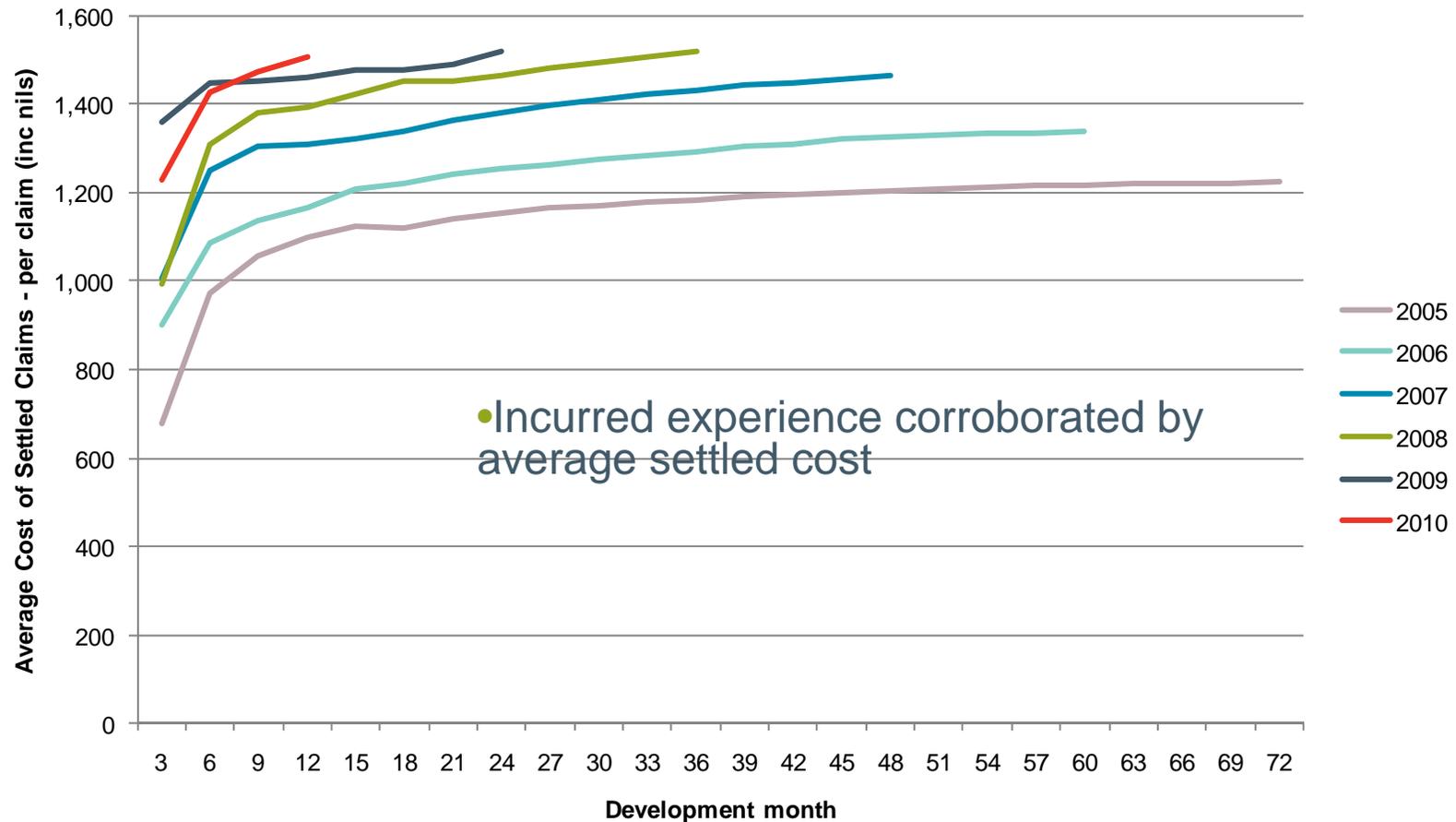
• Absolute average cost is higher than Comp (£1400) but inflation is roughly half that of Comp

Inflation Rates  
 09-10: 3.4% 08-09: 3% 07-08: 5.3% 06-07: 10% 05-06: 10.1%

# 2010 Statistic

## Private Car Non-Comp - All Distribution Channels - TPD

Average Cost of Settled Claims - per claim (inc nils)



• Incurred experience corroborated by average settled cost

Inflation Rates  
 09-10: 3.2% 08-09: 3.7% 07-08: 6.1% 06-07: 10.7% 05-06: 9.9%

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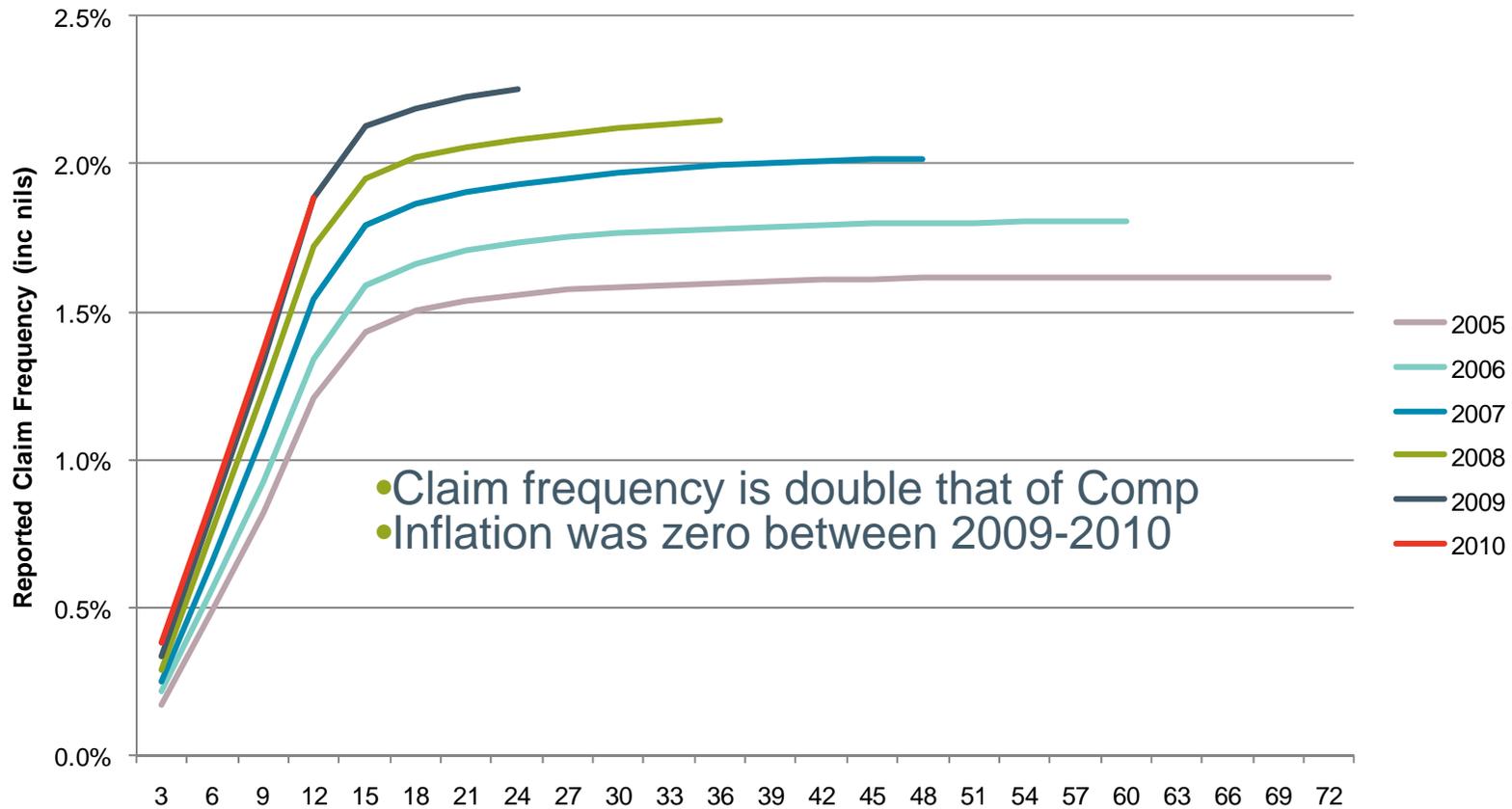
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# 2010 Statistic

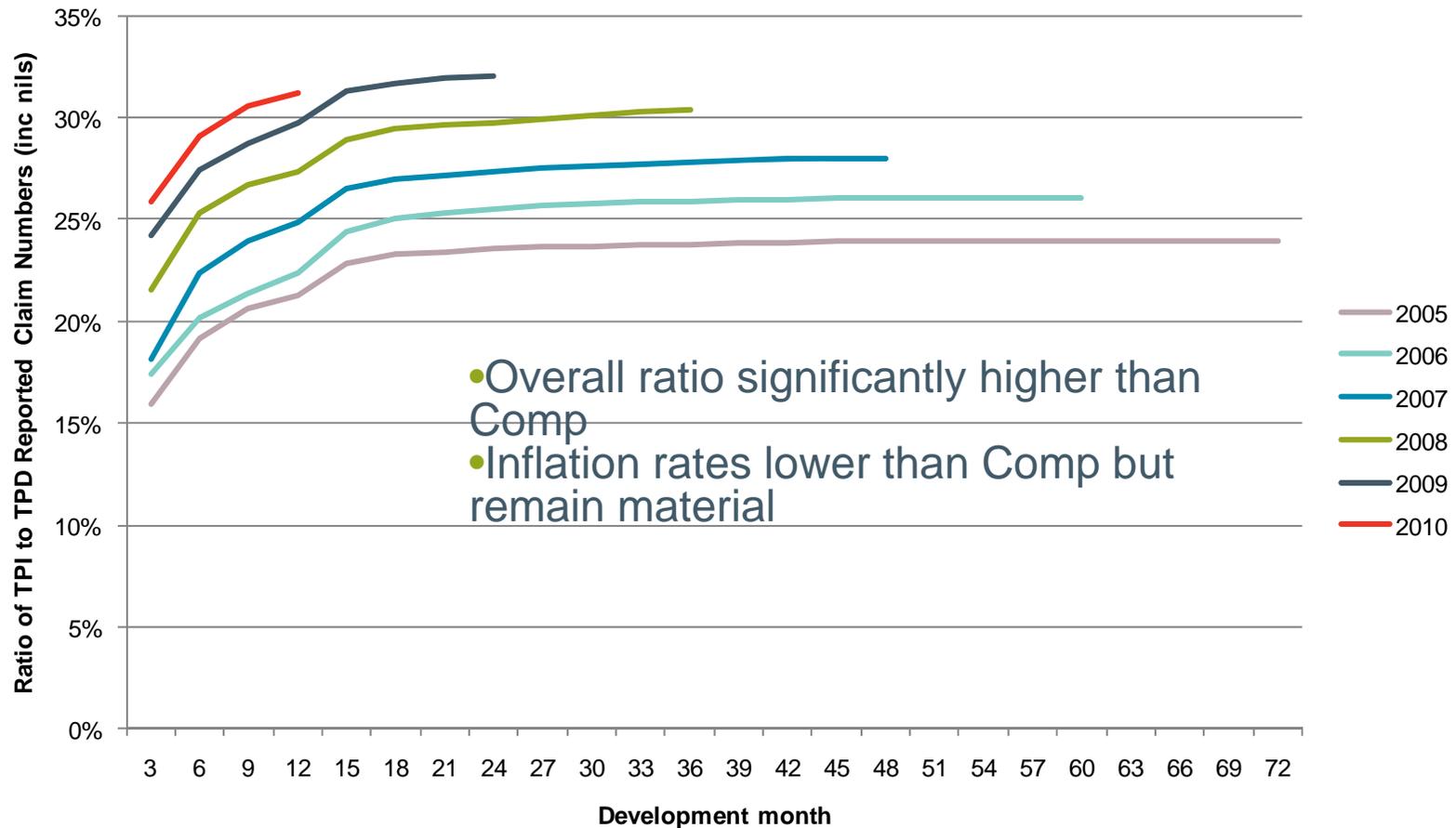
**Private Car Non-Comp - All Distribution Channels - TPI Capped**  
Reported Claim Frequency (inc nils)



**Inflation Rates**  
09-10: 0.2% 08-09: 8.3% 07-08: 7.6% 06-07: 12% 05-06: 11.6%

# 2010 Statistic

## Private Car Non-Comp - All Distribution Channels Ratio of TPI to TPD Reported Claim Numbers (inc nils)



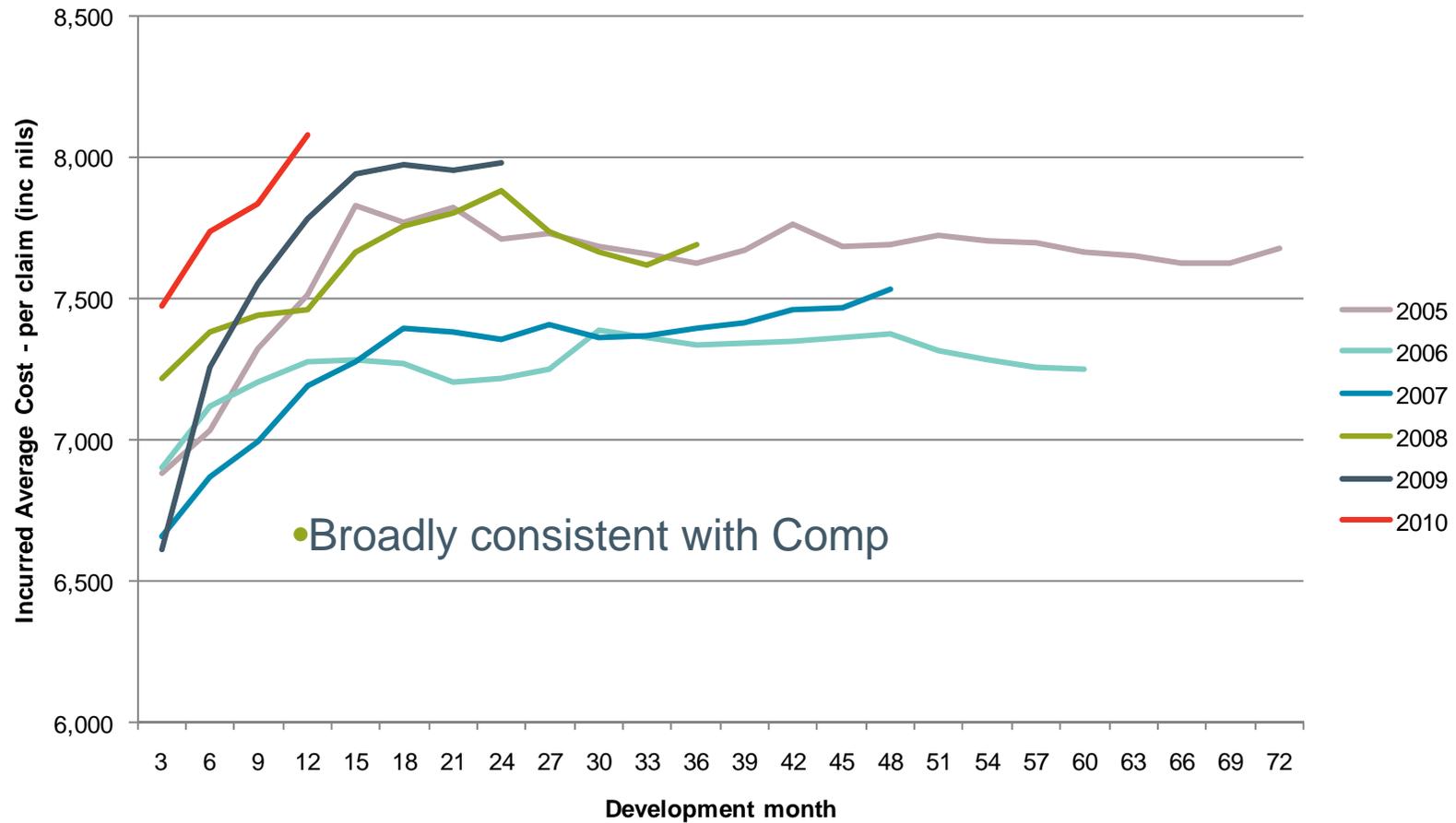
- Overall ratio significantly higher than Comp
- Inflation rates lower than Comp but remain material

Inflation Rates  
09-10: 4.9% 08-09: 7.8% 07-08: 9.1% 06-07: 7.6% 05-06: 8.9%

# 2010 Statistic

## Private Car Non-Comp - All Distribution Channels - TPI Capped

Incurred Average Cost - per claim (inc nils)

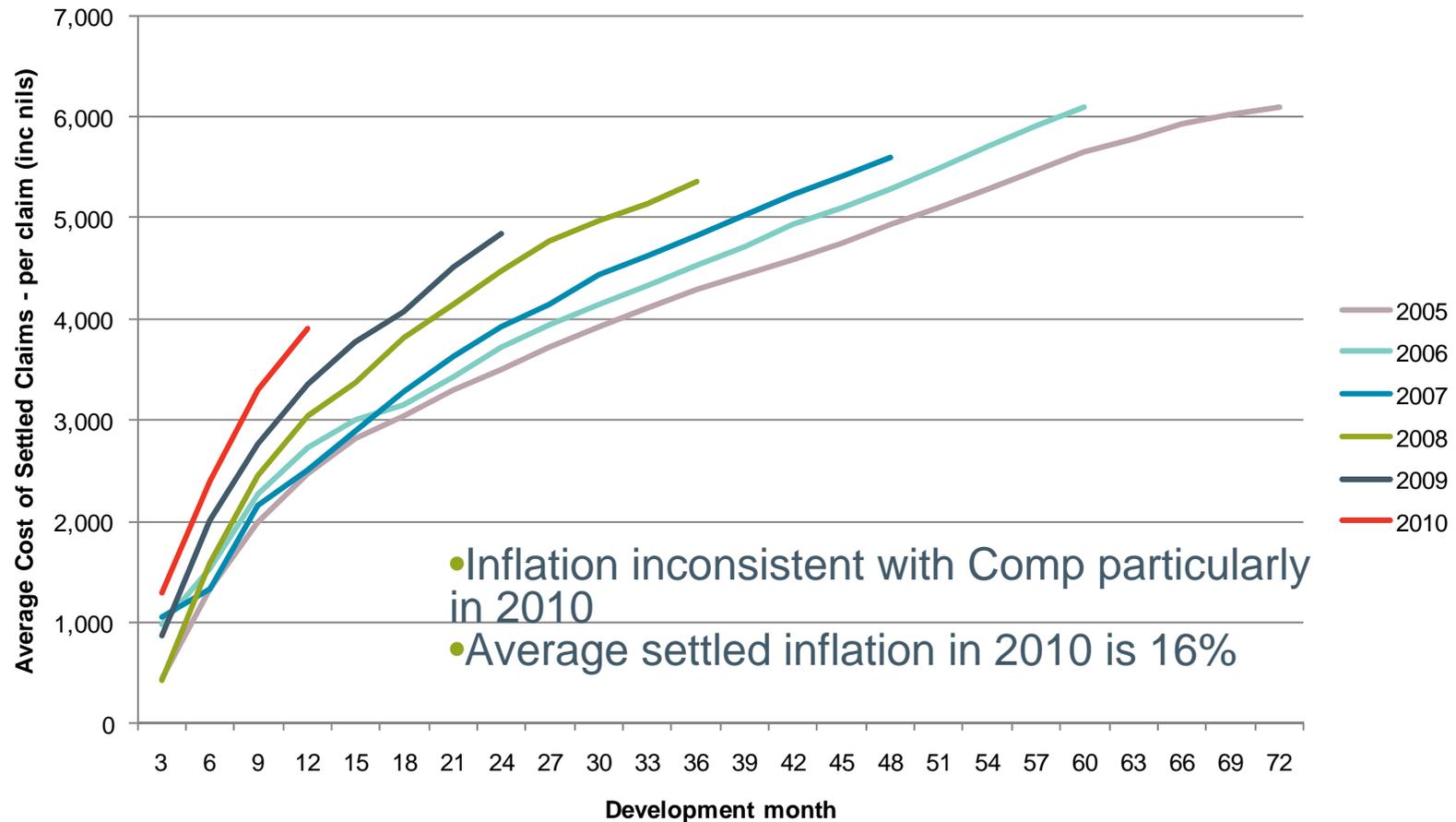


Inflation Rates  
 09-10: 3.8% 08-09: 1.2% 07-08: 4% 06-07: 2.1% 05-06: -5.4%

# 2010 Statistic

## Private Car Non-Comp - All Distribution Channels - TPI Capped

Average Cost of Settled Claims - per claim (inc nils)

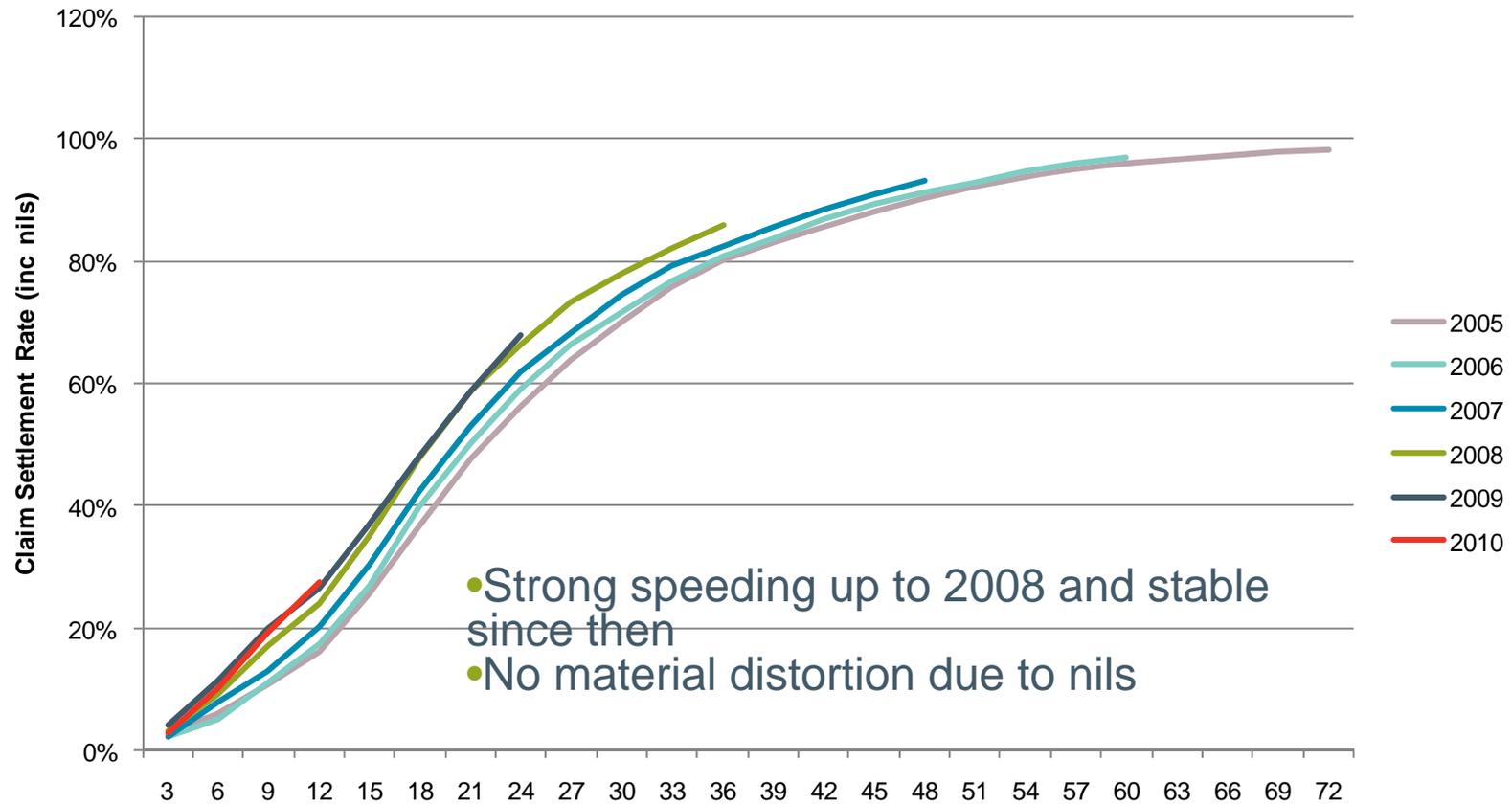


- Inflation inconsistent with Comp particularly in 2010
- Average settled inflation in 2010 is 16%

**Inflation Rates**  
 09-10: 16.3% 08-09: 8.2% 07-08: 10.9% 06-07: 6% 05-06: 7.9%

# 2010 Statistic

## Private Car Non-Comp - All Distribution Channels - TPI Capped Claim Settlement Rate (inc nils)



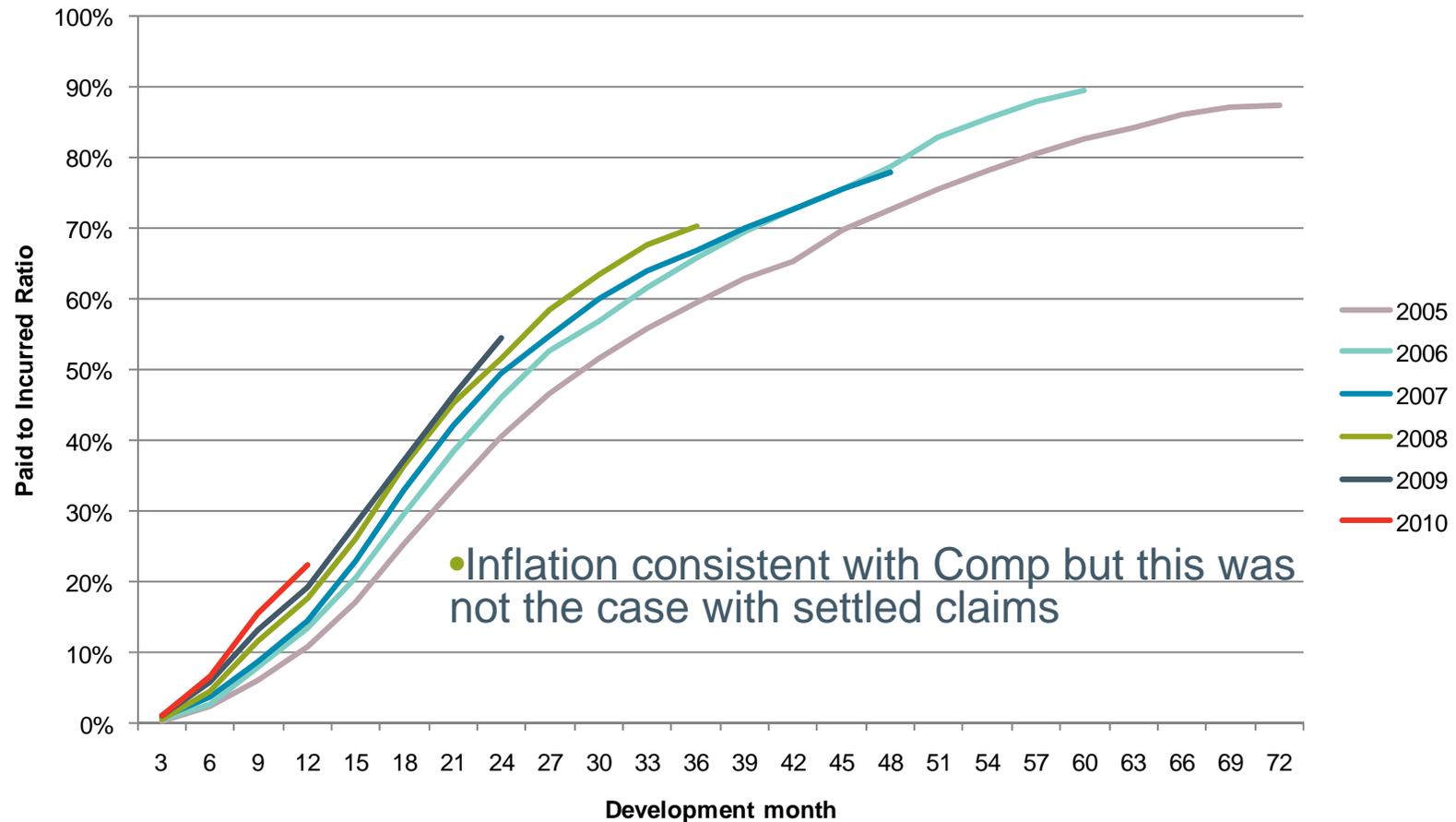
Development month

Inflation Rates

09-10: 3% 08-09: 2.2% 07-08: 4.2% 06-07: 2.1% 05-06: 1.2%

# 2010 Statistic

## Private Car Non-Comp - All Distribution Channels - TPI Capped Paid to Incurred Ratio



**Inflation Rates**  
09-10: 15.5% 08-09: 5.1% 07-08: 5.1% 06-07: -0.9% 05-06: 8.2%