Institute and Faculty of Actuaries

This is a short version of the 2014 report on third party motor claims from the Institute and Faculty of Actuaries (IFoA), analysing 2013 data.

These are the results for the fifth annual report from the Institute and Faculty of Actuaries collating and analysing data for UK third party motor claims, analysing data from across approximately 95% of the UK motor insurance industry for 2013 (01 January to 31 December 2013 unless otherwise stated). Third party motor insurance claims make up 70% of all motor insurance claims costs.

A full copy of the report is available on request. This document provides an abridged version of detailed findings for media use to support issued media releases:

Glossary

TPI: third party injury – claims arising when a driver causes personal injury to other persons for which he/she is liable.

TPD: third party damage – claims arising when a driver causes damage to the property of other persons for which he/she is liable.

TPI/TPD ratio - the ratio of TPI/TPD represents the proportion of (third party) insured accidents involving (third party) injury. So a 50% figure would mean that 1 out of every 2 TPD claims have an associated TPI claim.

CMC – claims management companies. These businesses offer claim management services to assist individuals in making claims for items such as compensation. They will provide either access to their own solicitors or access to other third party solicitors to assist the individual in making a claim.

Claims farming - claims management companies retrospectively filing claims on behalf of clients.

Claim severity – the average cost to insurers of a claim.

Small claims – claims made for under £20,000.

LASPO: Legal Aid, Sentencing and Punishment of Offenders Act (in force from 1 April 2013). LASPO introduced a number of measures that impacted TPI claims, including the banning of referral fees that were formerly used to encourage claim filing and reductions to the third party legal costs which can be recovered as part of the TPI claim.

Nil claims: Claims which are notified but ultimately settle for no payment to the claimant.

MoJ Portal: the Ministry of Justice claims portal is a stakeholder-led secure electronic communication tool for processing low value personal injury claims.

Capped Injury claims: Third party personal injury claims that have a value less than £100,000 in 2010 money terms (indexed at 7% per annum).

Excess injury claims: Third party personal injury claims that have a value greater than £100,000 in 2010 money terms (indexed at 7% per annum).

TPWP: Third Party Working Party- Working party that is part of the Institute and Faculty of Actuaries (IFoA).

Burning cost: The average cost of insurance claims per vehicle. This is a combination of the frequency of a claim, and the average cost of a claim.

Key findings of the report:

1. **Recent legal changes, such as LASPO have had a significant effect on third party injury claims.**
    - There is a 19% reduction in the cost of capped injury claims post LASPO
    - Legal fees on capped bodily injury claims have reduced by 65%
    - Analysis by head of damage suggests that the average cost of injury claims should be lower. However there is uncertainty around whether the initial reductions in average costs of claims will persist.

    We note however, this analysis is based on 9 months of data, and future claims experience could be very different.

2. **The frequency of TPI claims has reduced by 10% over 2013, for the first time since 2007.** The TPI / TPD ratio remains high at 35%, but this has reduced slightly in 2013.
3. **The average cost of a capped TPI claims has reduced by 5% over 2013, for the first time since 2006.** This leads to an overall reduction in the cost of capped injury claims of 14% for 2013 as a whole compared to 2012.
4. **There was a 7% reduction in the frequency of TPD claims over 2013.** This continues a trend that started in 2009 of 8% reductions in frequency year on year.
5. **The average cost of a TPD claim increased by 4%.** This continues the long term trend of 4% increase in severity year on year.
6. **Whilst the cost of Excess TPI claims increased by 11% over 2013**, this is driven by a 14% increase in the average cost size of these claims, offset slightly by experiencing fewer such claims. The increase in average cost is greatest in claims between £2m and £5m.
7. **There has been a 2% decrease in fatalities and 6% decrease in serious injuries from 2012 to 2013.** There is a strong correlation between industry large claims experience and the number of people reported to the Police as killed or seriously injured in road traffic accidents. The largest reduction in the number of people killed or seriously injured road traffic accidents has been in Greater Manchester, Gloucestershire and the West Midlands.
8. **Census data allows us to understand how third party insurance claims vary with the nation's characteristics.** Of the metrics that were reviewed:
    - Population density had the highest correlation (relationship) with both TPD and TPI frequency
    - Car density also demonstrates correlation with TPD and TPI frequency, but less so than population density.
    - The percentage of people in bad health had the highest correlation with the TPI to TPD ratio.
9. **The number of CMCs has decreased over the past year by 35%, and this follows a drop of 24% the previous year.** This is in line with the reduction in turnover observed over the past year. The decline in the number of CMCs is accelerating and is now half of that at its peak in 2009. This reduction could be linked to the banning of referral fees following the implementation of LASPO.

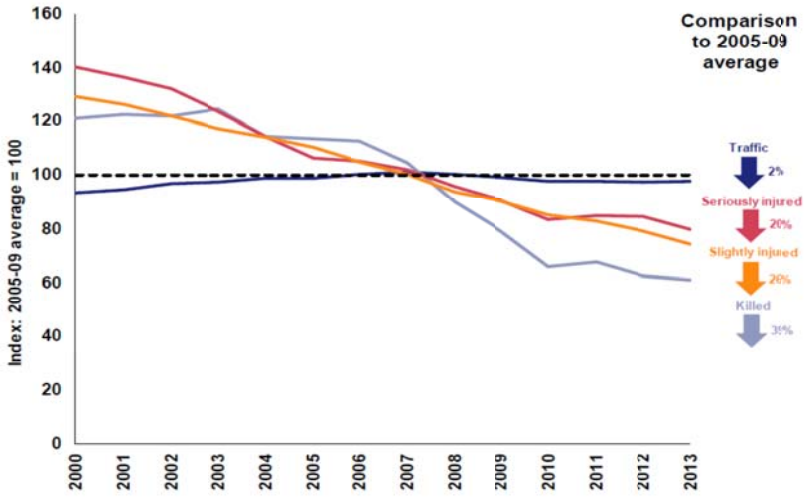
10. **Quoted third party motor insurance premiums have fallen for the third year. To the end of March 2014 (year-on-year) they fell by 19%.** [1]We believe that the reduction reflects insurers' anticipation of benefits coming from LASPO as well as the influence of a very competitive market. The average increase in motor insurance premiums since 2007 is lower than the rate of inflation.

[1] Source: Confused.com Car Insurance Price Index in association with Towers Watson

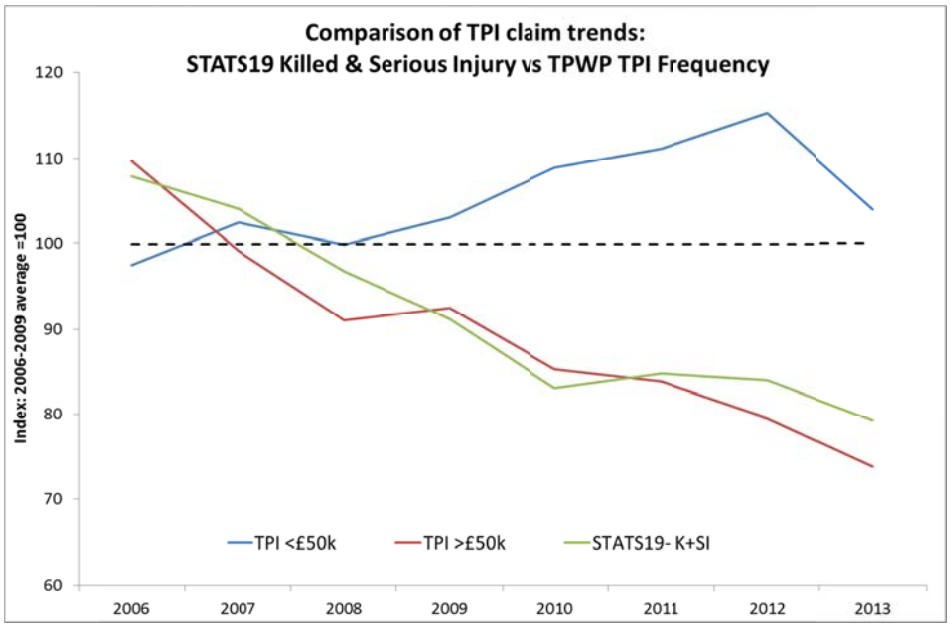
Appendix 1: Supporting data

The results below are derived using STATS 19 government data on the number of killed and seriously injured motor accidents in the UK, and compares to industry data.

Chart 1: Traffic and reported casualties by severity, GB: 2000-2013



The number of traffic accidents and reported casualties has been reducing year upon year, including a 2% decrease in fatalities and 6% decrease in serious injuries from 2012 to 2013. Analysis of TPWP claims experience for claims greater than £50,000 demonstrates that there is a strong correlation between industry large claims experience and the number of people killed and seriously injured in road traffic accidents.



Although there is a downward trend in the frequency of serious TPI claims in the STATS 19 data across the country, there is a variation in the size of the decrease. Greater Manchester, Gloucestershire and the West Midlands have seen the biggest reductions in reported road casualties.

Annualised trend in STATS19 reported road casualties between 2005 and 2013 by Police Force									
-1.7%		-3.7%		-4.3%		-5.0%		-6.4%	
City of London	0.4%	Suffolk	-3.0%	Nottinghamshire	-4.0%	Northumbria	-4.7%	Devon and Cornwall	-5.3%
Lincolnshire	-0.9%	Lothian and Borders	-3.4%	Thames Valley	-4.1%	Tayside	-4.7%	Strathclyde	-5.6%
Humberside	-1.0%	Leicestershire	-3.5%	Derbyshire	-4.1%	South Yorkshire	-4.7%	Dumfries and Galloway	-5.7%
Metropolitan Police	-1.0%	North Wales	-3.7%	Durham	-4.1%	Norfolk	-4.8%	Hertfordshire	-5.8%
Kent	-1.8%	Cleveland	-3.7%	Dorset	-4.3%	Staffordshire	-4.9%	Avon and Somerset	-5.8%
Grampian	-2.2%	North Yorkshire	-3.8%	Wiltshire	-4.3%	Cambridgeshire	-5.0%	Fife	-5.9%
Central	-2.4%	Sussex	-3.8%	Lancashire	-4.5%	Northern	-5.0%	South Wales	-6.0%
Bedfordshire	-2.6%	West Mercia	-3.9%	Cheshire	-4.5%	Gwent	-5.3%	Merseyside	-6.2%
Surrey	-2.7%	Warwickshire	-4.0%	West Yorkshire	-4.5%	Cumbria	-5.3%	West Midlands	-7.0%
Hampshire	-2.8%	Dyfed-Powys	-4.0%	Essex	-4.6%	Northamptonshire	-5.3%	Gloucestershire	-8.0%
								Greater Manchester	-8.6%

The results below are derived using both census and industry data. Industry data is from the Institute and Faculty of Actuaries, Update from the Third Party Working Party, January 2015.

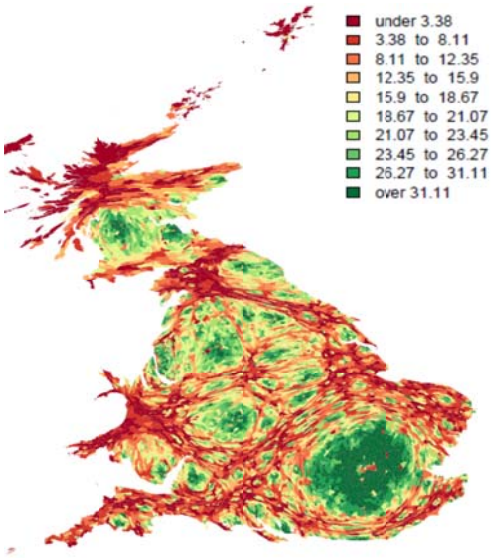
Census data can be used to understand the links between other characteristics and the frequency of third party motor insurance claims. Census data on a number of factors were used to analyse the links to the frequency of claims[2]:

Cluster	Variable	Correlation with TPD Frequency	Correlation with TPI Frequency	Correlation with TPI to TPD Ratio
Density	Car Density	0.53	0.47	0.27
	Population Density	0.61	0.61	0.41
	Cars per population	-0.47	-0.53	-0.40
	% UK born	-0.56	-0.31	-0.03
	% EU born	-0.56	-0.32	-0.04
	% in overcrowded	0.53	0.43	0.21
	% in under occupied	-0.51	-0.44	-0.24
Deprivation	% high education	-0.05	0.15	0.26
	% low education	-0.01	-0.23	-0.34
	% economically active	0.06	-0.14	-0.26
	% economically inactive	-0.06	0.14	0.26
	% social class AB	-0.07	-0.31	-0.40
	% social class DE	0.16	0.40	0.46
	% good health	0.04	-0.25	-0.40
	% bad health	0.08	0.38	0.49

We investigate two of these factors in more detail below:

[2] Correlation statistics give us information about the strength of the relationship between two pieces of information. The greater the number, the stronger the relationship; a perfect relationship has a correlation of 1.00, and a correlation of 0 represents no relationship.

1. Population density [3]

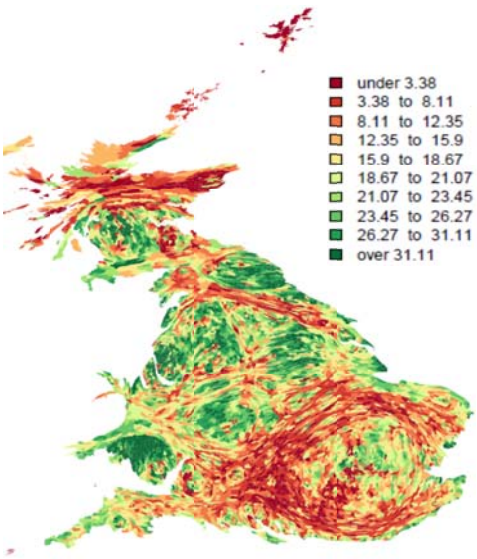


Correlation with TPD Frequency	Correlation with TPI Frequency	Correlation with TPI to TPD Ratio
0.61	0.61	0.41

This factor demonstrates the strongest correlation to TPD and TPI frequencies of all the metrics tested. This indicates that the strongest driver of TPI and TPD claims in the population density of the factors tested.

Unexpectedly, the population density correlates stronger to claim frequency than car density.

2. Poor health



Correlation with TPD Frequency	Correlation with TPI Frequency	Correlation with TPI to TPD Ratio
0.08	0.38	0.49

[3] **Chloropleth map**: a thematic map in which areas are coloured according to the measurement of a statistical variable being displayed on the map. The chart below is an **Area Cartogram**; a chloropleth where the land area appears in proportion to a statistical measure, such as population.

This metric exhibits the strongest correlation with the TPI to TPD ratio. There are concentrations of poor health in South Wales, Midlands, North West and North East.

Capped TPI Results by Accident Year

Projected Ultimate Capped TPI Results for Private Car Comprehensive

Accident Period	Earned Exposure (millions of policy years)	Ultimate TPI Capped Claim Frequency (Non-nil claims per million vehicle years)	Ultimate TPI Capped Claim Severity (£)	Ultimate TPI 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)
2006	10.1	9,882	7,274	71.9			
2007	10.3	10,349	7,183	74.3	4.7%	-1.3%	3.4%
2008	15.4	10,082	7,930	79.9	-2.6%	10.4%	7.5%
2009	20.6	10,497	8,879	93.2	4.1%	12.0%	16.6%
2010	21.0	10,957	8,876	97.3	4.4%	0.0%	4.3%
2011	21.6	11,176	9,133	102.1	2.0%	2.9%	5.0%
2012	21.9	11,582	9,314	107.9	3.6%	2.0%	5.7%
2013	22.1	10,454	8,855	92.6	-9.7%	-4.9%	-14.2%
Average (2006 to 2013)					0.8%	2.8%	3.7%
Average (2009 to 2013)					-0.1%	-0.1%	-0.2%
Average (2011 to 2013)					-3.3%	-1.5%	-4.8%

This demonstrates the 10% reduction in frequency and 5% reduction in severity over 2013.

TPD results by Accident Year

Projected Ultimate TPD Results for Private Car Comprehensive

Accident Period	Earned Exposure (millions of policy years)	Ultimate TPD Claim Frequency (Non-nil claims per million vehicle years)	Ultimate TPD Claim Severity (£)	Ultimate TPD Burning Cost (£)	Year-on-Year Change in Frequency (% pa)	Year-on-Year Change in Severity (% pa)	Year-on-Year Change in Burning Cost (% pa)
2006	9.4	34,645	1,773	61.4			
2007	9.3	35,088	1,918	67.3	1.3%	8.2%	9.6%
2008	14.5	37,282	1,849	68.9	6.3%	-3.6%	2.4%
2009	19.7	39,500	1,843	72.8	5.9%	-0.3%	5.6%
2010	20.0	37,782	1,884	71.2	-4.3%	2.2%	-2.3%
2011	20.5	32,894	2,026	66.7	-12.9%	7.6%	-6.3%
2012	20.6	30,663	2,235	68.5	-6.8%	10.3%	2.8%
2013	20.6	28,506	2,325	66.3	-7.0%	4.0%	-3.3%
Average (2006 to 2013)					-2.7%	4.0%	1.1%
Average (2009 to 2013)					-7.8%	6.0%	-2.3%
Average (2011 to 2013)					-6.9%	7.1%	-0.3%

This demonstrates the 7% reduction in frequency and 4% increase in severity over 2013.

Excess TPI results by Accident Year

Projected Ultimate Excess TPI Results for Private Car Comprehensive

Accident Period	Earned Exposure (millions of policy years)	Ultimate TPI Excess Claim Frequency (Non-nil claims per million vehicle years)	Ultimate TPI Excess Claim Severity (£)	Ultimate TPI Excess Burning Cost (£)	Year-on-Year Change in Frequency (% pa)	Year-on-Year Change in Severity (% pa)	Year-on-Year Change in Burning Cost (% pa)
2006	10.1	96	358,365	34.5			
2007	10.3	87	252,982	22.0	-9.8%	**-29.4%**	**-36.3%**
2008	15.4	80	340,622	27.3	-7.9%	**34.6%**	**24.1%**
2009	20.6	77	433,978	33.4	-3.7%	**27.4%**	**22.6%**
2010	21.0	69	412,579	28.3	-11.0%	-4.9%	-15.4%
2011	21.6	70	419,960	29.6	2.6%	1.8%	4.5%
2012	21.9	70	492,495	34.3	-0.9%	17.3%	16.2%
2013	22.1	68	558,867	38.1	-2.3%	13.5%	10.9%
Average (2006 to 2013)					-4.8%	6.6%	1.4%
Average (2009 to 2013)					-3.0%	6.5%	3.3%
Average (2011 to 2013)					-1.6%	15.4%	13.5%

In the above table, particularly benign levels of inflation are shown in blue, whereas particularly adverse inflation is shown in red. The table demonstrates the 2% reduction in frequency, and 14% increase in severity over 2013.

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Appendix 2: supporting background information
Background to the Motor Insurance Industry

These are the results for the fifth annual report from the Institute and Faculty of Actuaries collating and analysing data for UK third party motor claims. The report is produce by the Third Party Working Party, which commenced in 2009.

Motor insurance offers cover to both personal and commercial customers in the UK and is compulsory in respect of third party property damage and third party bodily injury. For personal lines, this paper focuses on comprehensive cover rather than non-comprehensive cover due its far larger size.

The motor insurance industry lost money in 2011, 2012 and 2013 (as per the FSA/PRA returns based on combined operating ratios)[4]. In 2013 there was a loss of 9p for every £1 of premium sold when comparing claims and expenses against premium income, excluding reserve releases. (See Deloitte Analysis of AM Best data).

Motor premiums rose significantly during 2010 as a consequence of increasing claims costs. However, premiums began to fall from the end of 2011 with premiums 9.8% lower at the end of March 2013 than a year earlier and this has been followed by a further 19% reduction by the end of March 2014[5]. There have been many regulatory changes aimed at helping policyholders that have impacted the motor insurance industry in recent years, such as the introduction of the MoJ portal in 2010 and the introduction of LASPO in 2013. There are also future proposed Whiplash initiatives and Competition and Market Authority proposals on Credit Hire/repair. These changes have also helped lead to some of the results discussed in this research, and are a continuing source of uncertainty within the motor insurance industry.

Background to the Working Party
The Institute and Faculty of Actuaries commissioned a working party to investigate third party motor insurance based on some worrying inflationary trends being reported by individual insurers.

About the Institute and Faculty of Actuaries (IFoA)
The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. Research undertaken by the IFoA is not commercial. As a learned society, research helps us to fulfil two of our royal charter requirements; to further actuarial science and serve the public interest.

Actuaries provide commercial, financial and prudential advice on the management of a business's assets and liabilities, especially where long term management and planning are critical to the success of any business venture. They also advise individuals, and advise on social and public interest issues.

For further information, quotes, Jpeg images or a copy of the full report please contact the media office: annette.heninger@actuaries.org.uk / 07525 592 198 or press.office@actuaries.org.uk

Members of the IFoA have a statutory role in the supervision of pension funds and life insurance companies. They also have a statutory role to provide actuarial opinions for managing agents at

[4] Note that some insurers who sell motor insurance in the UK are based in offshore jurisdictions, and hence do not submit results to the UK regulator. These results are not included in these statistics.

[5] Source: Confused.com Car Insurance Price Index in association with Towers Watson

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