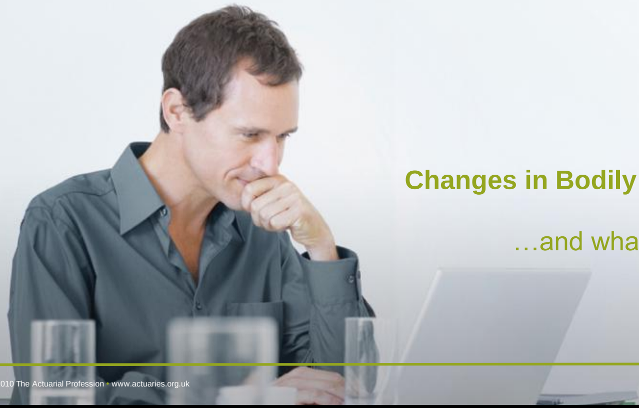
The Actuarial Profession
making financial sense of the future

General insurance pricing seminar
Grant Mitchell



Changes in Bodily Injury Claims Handling

…and what they mean for actuaries

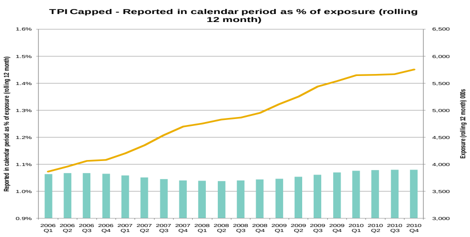
1 December 2011

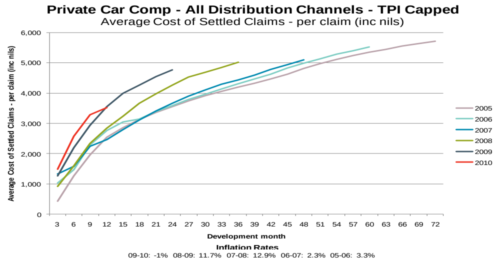
Agenda

- Context
- Large Claims
  – Ogden
  – PPOs
- Attritional claims
  – MoJ Reforms
  – Claimants per claim
  – Fraud
  – Jackson
- Segmental Pricing
- Conclusions

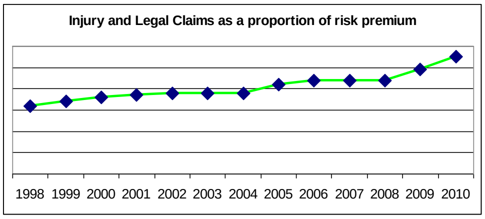
Context

It's never been so important to understand injury claims cost





Source: Third Party Working Party



Context

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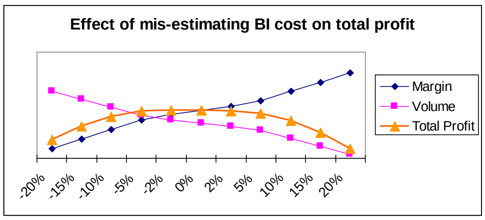

But it's never been more difficult

- Changes in environment
- Changes in processing
- Invalidates model assumptions – both globally and segmentally

Large Claims

- Frequency fairly stable
- Claims inflation
  - 4th IUA Study (2007) indicated 9% large claims inflation
  - Typically larger for the largest claims
  - Possibly falling slightly in more recent years
- Ogden
- PPOs / Lump sums

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Ogden

- Discount rate
  - Set at 2.5% in 2001
  - Loosely based on 3 year average ILGS yield
  - A similar approach now would lead to a discount rate of ~1%
  - *Helmot v Simon*
- Lord Chancellor announced review on 9th November 2010
- APIL launched Judicial Review on 1st April 2011
- Lord Chancellor now expected to consult on methodology
- 7th Edition Tables published October 2011
- Impact of possible cut?
  - Increase in reserves c£2.5bn?
  - Ongoing cost c£500m p.a.?
  - Additional cost to NHSLA, MoD
- Deferred settlement waiting for a decision?

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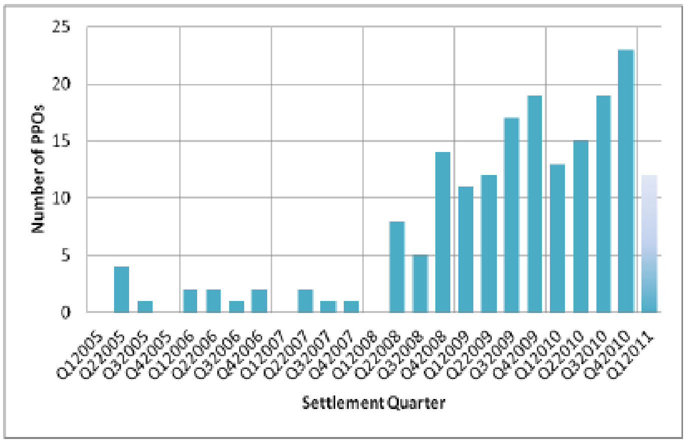
PPOs



Source: Actuarial Profession Working Party – GIRO 2011

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PPOs

- Additional cost
  - Reinsurance
  - Capital
  - Case-by-case review?
- Payment pattern
- Estimates?
- Impact of discount rate change on take-up?
- How to price
  - Treat as lump sum and load?
  - Separate allowance?

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Attritional Claims

Here's a triangle…

	1	2	3	4	5	6	7	8	9	10	11	12
Q1 2005	29	67	81	91	94	96	98	99	100	101	101	102
Q2 2005	39	69	88	95	100	102	104	106	107	107	108	108
Q3 2005	31	68	86	98	101	102	105	108	108	108	109	110
Q4 2005	32	78	101	108	113	116	119	120	121	123	123	124
Q1 2006	39	81	93	99	105	108	110	111	113	114	115	115
Q2 2006	40	79	93	105	112	115	126	128	129	129	130	131
Q3 2006	29	68	100	114	121	129	133	135	135	136	137	137
Q4 2006	20	78	112	125	135	140	143	145	146	147	147	147
Q1 2007	38	92	109	121	127	132	133	134	135	136	137	138
Q2 2007	49	96	112	121	128	130	130	132	133	134	134	135
Q3 2007	45	101	123	132	136	138	140	143	143	143	145	146
Q4 2007	50	111	130	138	142	145	146	146	148	149	150	151
Q1 2008	60	112	120	123	126	129	131	132	133	134	135	136
Q2 2008	61	100	108	115	117	118	120	122	124	126	127	127
Q3 2008	65	100	105	111	112	114	116	119	130	130	132	
Q4 2008	72	120	131	135	138	141	144	146	147	148		
Q1 2009	78	112	114	119	122	126	128	129	131			
Q2 2009	79	120	128	133	138	142	144	145				
Q3 2009	64	111	124	137	144	145	148					
Q4 2009	44	108	129	139	142	147						
Q1 2010	59	120	133	137	143							
Q2 2010	80	129	136	144								
Q3 2010	83	134	152									
Q4 2010	89	161										
Q1 2011	84											

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What is going on here?

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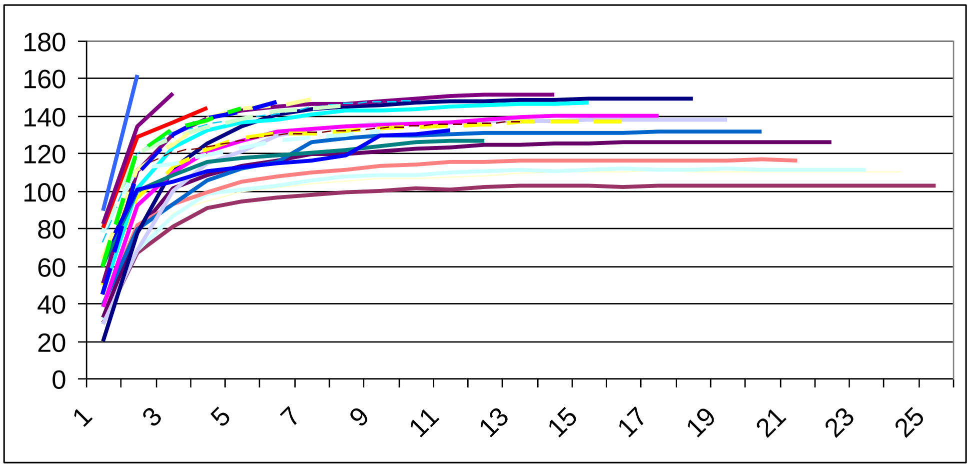
Attritional Claims



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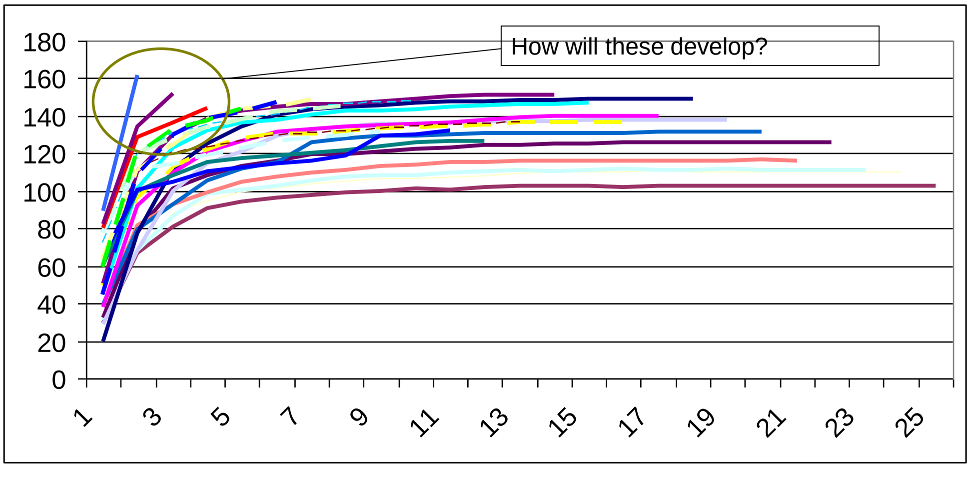
Attritional Claims



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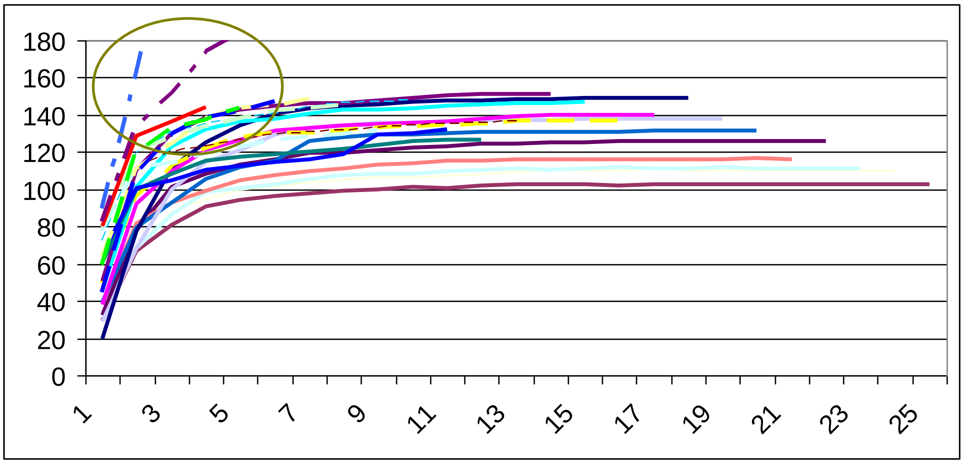
Attritional Claims



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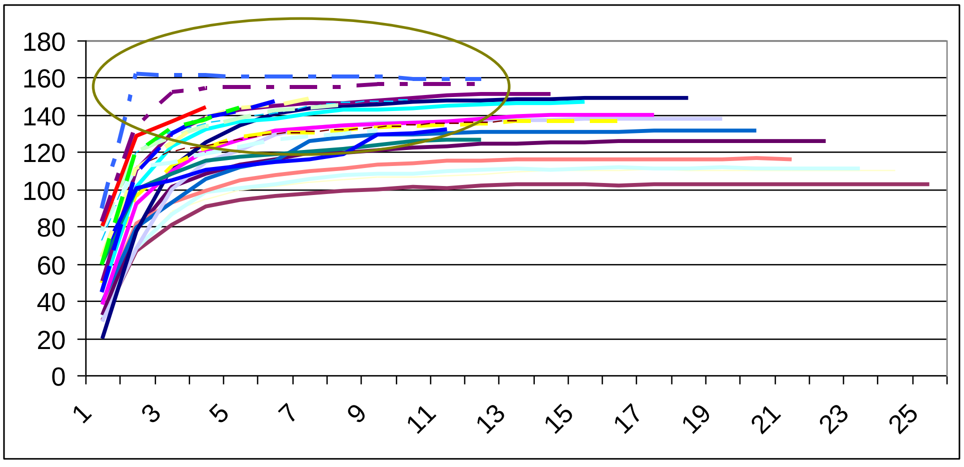
Attritional Claims



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Attritional Claims

- Frequency increasing
  - Claims farming?
  - Recession?
  - Fraud?
  - MoJ?
  - Claimants per claim?
- Process changes
  - MoJ speeding up
  - Changes in legal fees
- Can we separately identify the two?

Attritional Claims

- Can we separately identify the two?
- Probably not, but can enhance our level of confidence
  - Use different methods
  - Paid / Incurred triangles
  - Average cost
  - TPPD propensity
  - Operational time methods
  - etc

MoJ Reforms

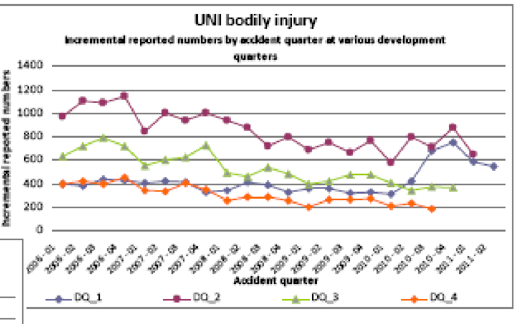
- Apply to claims occurring from 30/4/10
  – But if handlers are geared up to the new timescales, are they applying them on older claims too?
  – Initial difficulties with portal
- Claims between £1000 and £10000
  – Leads to more £1000 claims?
  – Knock-on effect on larger claims?
- Accelerates notification and first payment

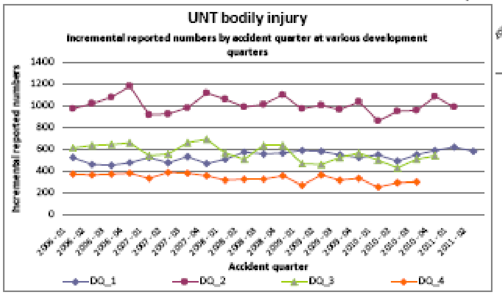
MoJ Reforms

MIB experience

•Claims against uninsured drivers follow MoJ process

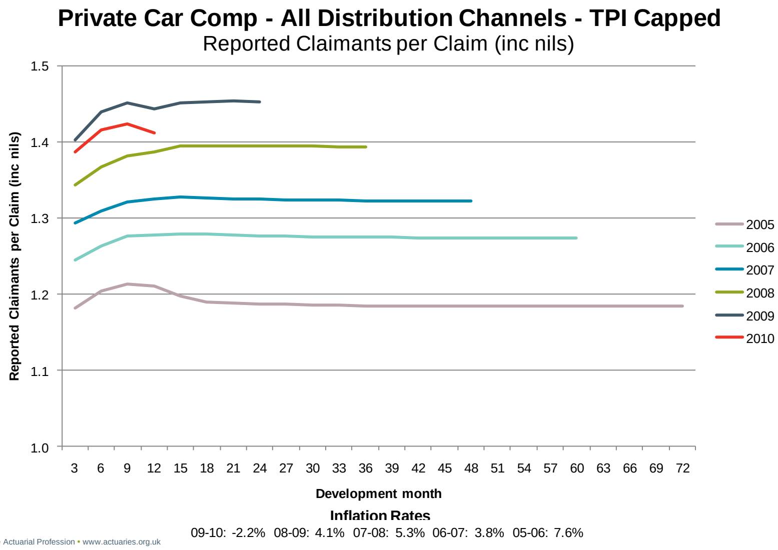
•Claims against untraced drivers do not





Source: Towers Watson analysis of MIB data

Claimants per Claim



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Claimants per Claim

- Increasing?
- Groupama – H1 2009 – report increase from 1.2 to 1.5
- Admiral defy market expectations – “no increase in claimants per claim”
- Are you tracking it?
- Frequency or severity?
- Impact on notification / payment patterns?

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Fraud

- Increasing
- Geographical bias?

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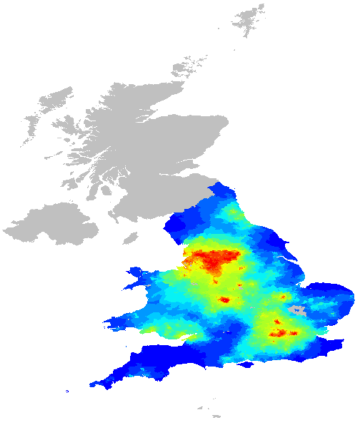
Fraud



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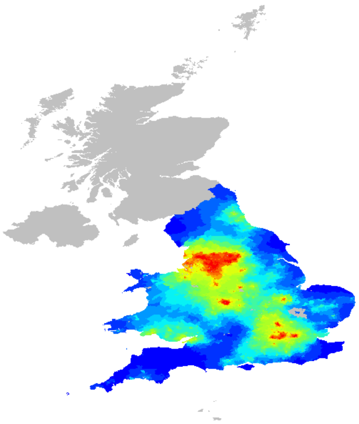
~~Fraud~~



Actually it's intensity of registered claims management companies.

Source: Third Party Working Party 2010

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Fraud

- Increasing
- Geographical bias?
- How are cases reserved?
- Impact on frequency – but what about severity?
- How many are not detected?

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Jackson

- Government proposals published March 2011
- Non-recoverability of success fees / ATE premium
- Qualified one-way cost shifting
- 10% increase in general damages
- Possible reduction in frequency?
- Severity?
- Possible extension of MoJ to claims up to £50K
- Referral fees to be banned
- Consultation on reduction in fixed legal fees

Segmental Pricing

- Models
- Need to enhance signal
- Propensity models
- Postcodes
- How quickly will it change?
- Time test

Conclusion

- Talk to your claims team
- Data
- MI / Insight
- Use different methods
- Track your assumptions – what would you expect to see next?

REMEMBER – IT'S NEVER BEEN SO IMPORTANT!

Any Questions?