

The Actuarial Profession
making financial sense of the future

**Third Party Motor Working Party and PPO Working Party
Reserving Seminar – David Brown & Sarah MacDonnell**



•23 November 2011

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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.

Acknowledgements for TPWP

Working Party:

David Brown (Chair)
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Acromas
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Aviva
AXA
The Cooperative
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Provident
RBS Insurance
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Acknowledgements for PPO Working Party

Working Party:

Anthony Cloughton
Avni Gohil
Bruce Stocker
Gary Yeates
Karl Murphy
Mark Cockcroft (Co-Chair)
Nathan Williams (Co-Chair)
Peter Yeates
Peter Saunders
Sarah MacDonnell
Simon Warsop
Sylvie Le Delliou-Viel
...plus others we consulted
and spoke with

Data contributors:

Allianz *
Aviva *
AXA*
Esure*
Groupama*
Highway
HSBC
Liverpool Victoria*
NFU Mutual*
Provident*
RBS Insurance*
RSA*
Zurich Insurance*

* contributed to both working parties

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Industry results from TP and PPO working parties

- Second Industry Study with 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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Excess of Capped TPI Analysis Introduction

- 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

- 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

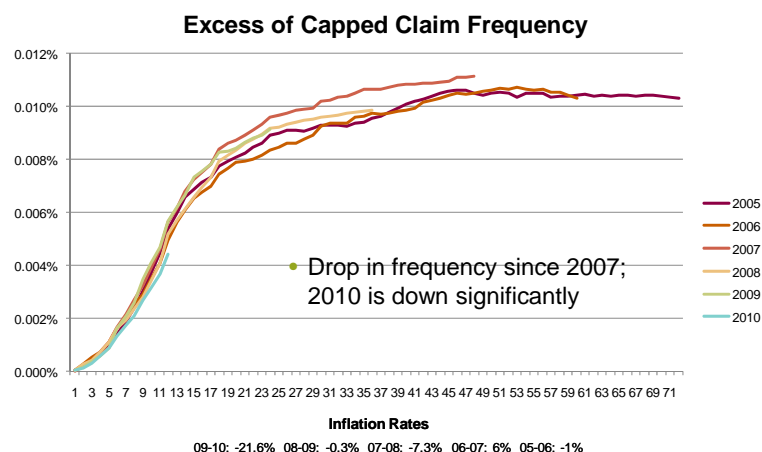
| Accident Year | Threshold |
|---------------|-----------|
| 2000 | 50,835 |
| 2001 | 54,393 |
| 2002 | 58,201 |
| 2003 | 62,275 |
| 2004 | 66,634 |
| 2005 | 71,299 |
| 2006 | 76,290 |
| 2007 | 81,630 |
| 2008 | 87,344 |
| 2009 | 93,458 |
| 2010 | 100,000 |

- 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.

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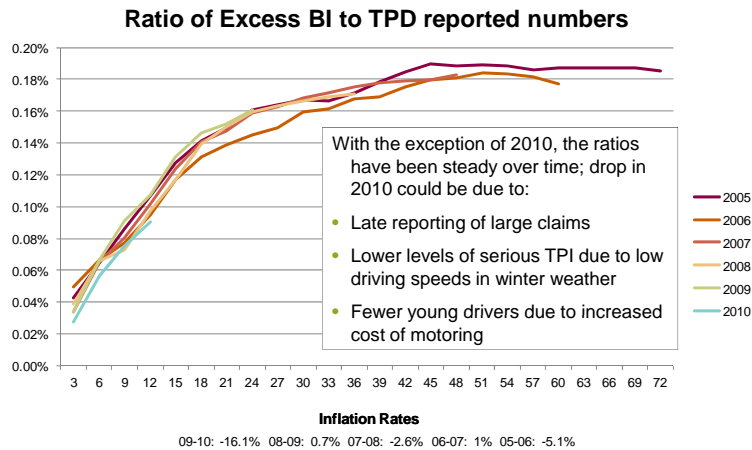
Excess of Capped TPI Analysis Data Trends



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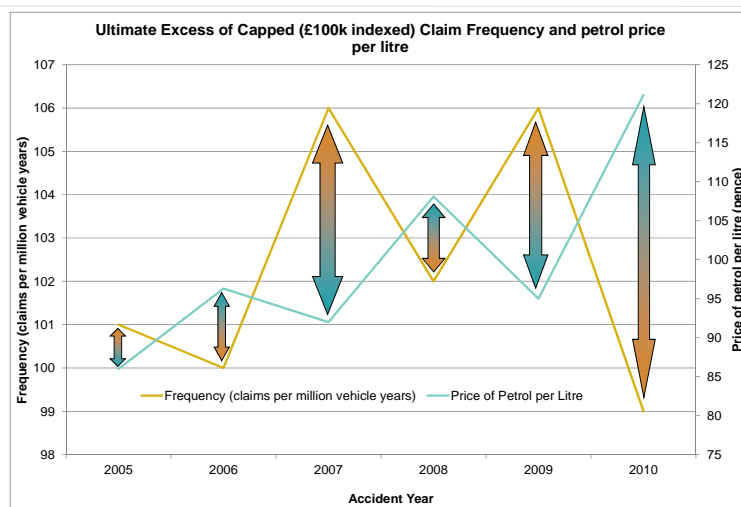
Excess of Capped TPI Analysis Data Trends



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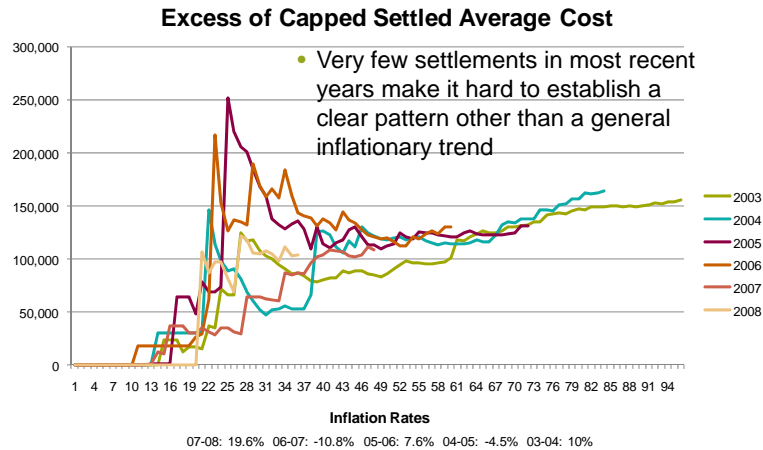
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Large claims frequency vs. petrol prices



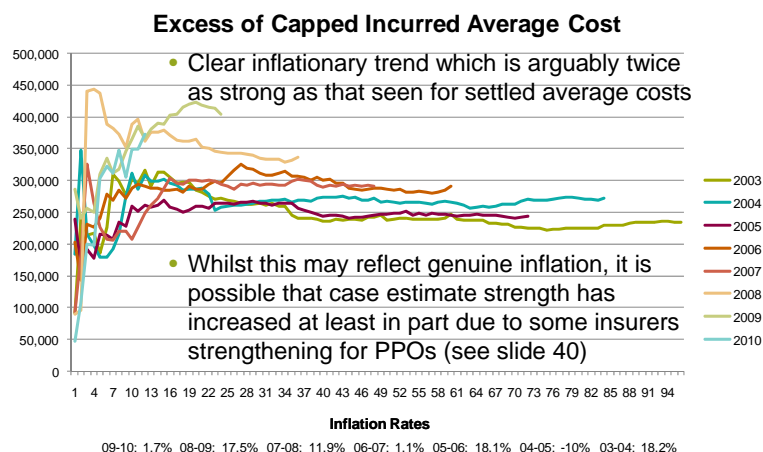
Petrol price data from the Automobile Association
http://www.theaa.com/motoring_advice/running_costs/archive.html

Excess of Capped TPI Analysis Data Trends



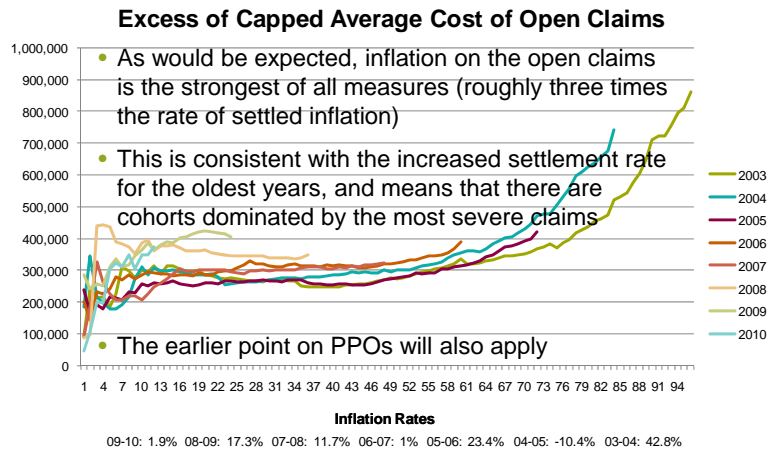
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Excess of Capped TPI Analysis Data Trends



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Excess of Capped TPI Analysis Data Trends



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Excess of Capped TPI Analysis Projected Ultimate Claims – Uncertainty

- 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

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Excess of Capped TPI Analysis Projected Ultimate Claims

Projected Ultimate Excess of Capped TPI Results for Private Car Comprehensive

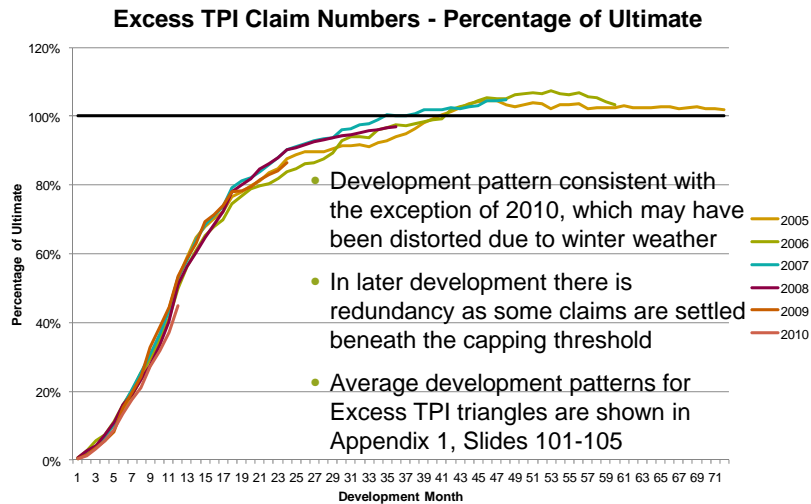
| Accident Period | Earned Exposure (millions of vehicle years) | Ultimate Excess of Capped Claim Frequency (claims per million vehicle years) | Ultimate Excess of Capped Claim Severity (£) | Ultimate Excess of Capped Burning Cost (£) | Year-on-Year Change in Frequency (% pa) | Year-on-Year Change in 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% | 20.1% |
| 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

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Excess of Capped TPI Analysis Projected Ultimate Claims



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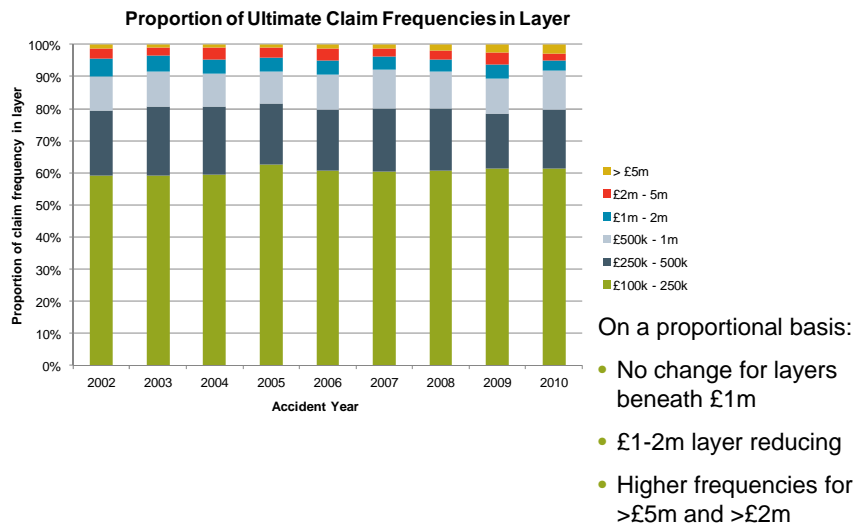
Excess of Capped TPI Analysis Projected Ultimate Claims

- 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+
 - & £100k indexed to £100k
- 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.

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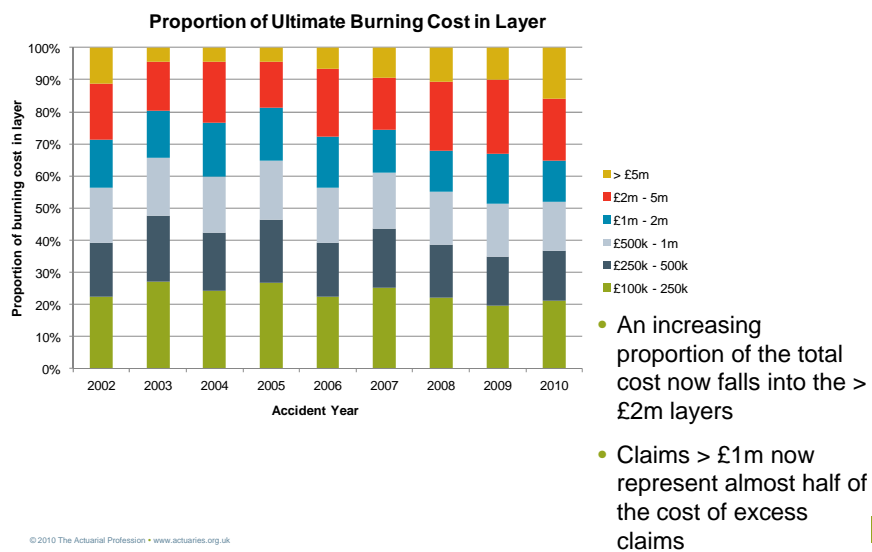
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Excess of Capped TPI Analysis Projected Ultimate Claims



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Excess of Capped TPI Analysis Projected Ultimate Claims



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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

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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% | 13% | 9% | 11% | | | |
| 2004 - 2007 | -10% | 5% | 7% | 7% | | | | |
| 2005 - 2008 | 17% | 15% | 17% | | | | | |
| 2006 - 2009 | 16% | 22% | | | | | | |
| 2007 - 2010 | 21% | | | | | | | |
| 5 Year Periods | | | | | | | | |
| 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

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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.

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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 | 4 | 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 25th largest claim exceeds £3m for the first time.
- In 2009 the 25th 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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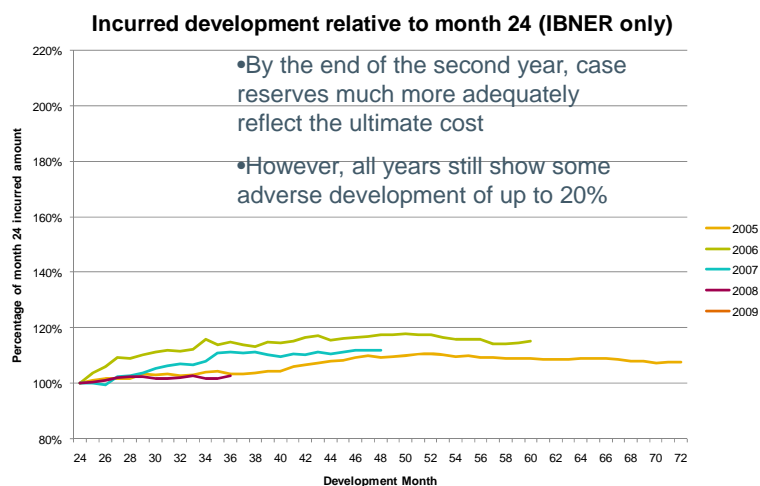
Excess of Capped TPI Analysis Adequacy of Case Estimates

- 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

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Excess of Capped TPI Analysis Adequacy of Case Estimates



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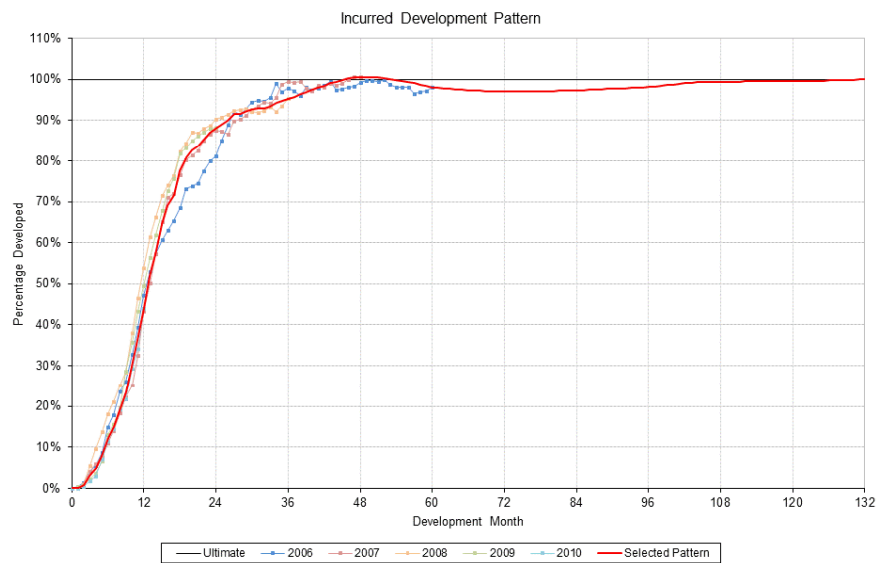
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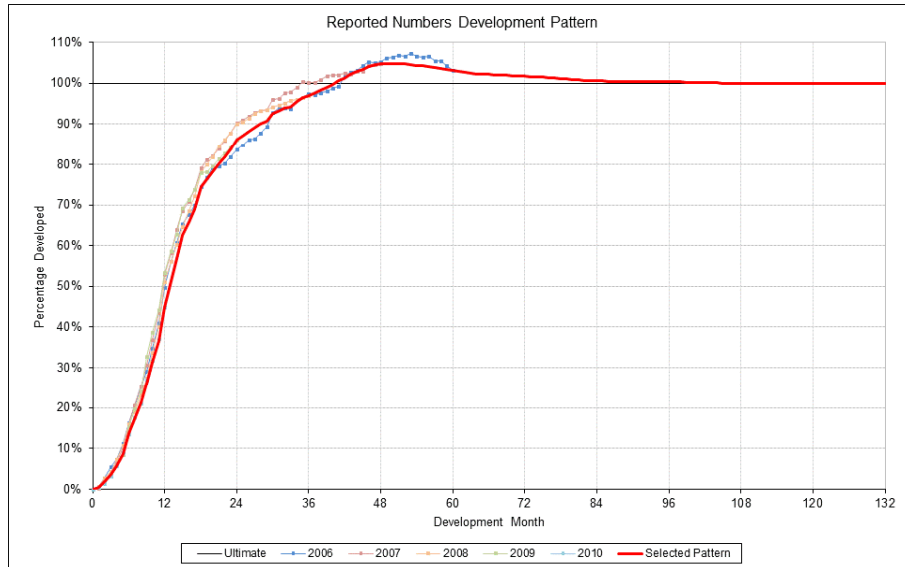
Benchmark Development - Incurred



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Benchmark Development - Reported



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PPO Working Party Industry Survey 2011

Profile of a PPO

Additional measures in 2011

- Propensity
- MIB experience
- Liability PPOs
- Nature of Injury

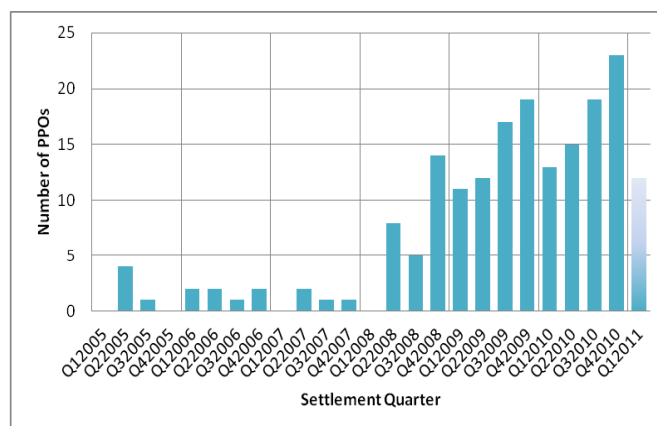
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Update

Number of PPO claims by settlement quarter

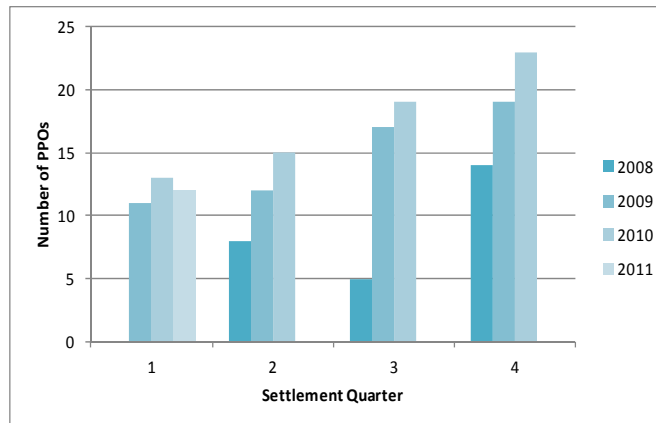


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Update

Number of PPO claims by settlement quarter



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Industry Survey 2011

Profile of a PPO

Additional measures in 2011

- Propensity
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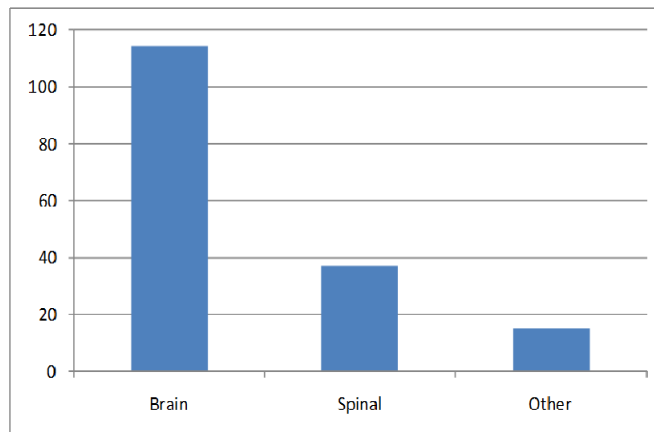
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Profile of a PPO

Number of PPOs by type of injury



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Profile of a Motor PPO

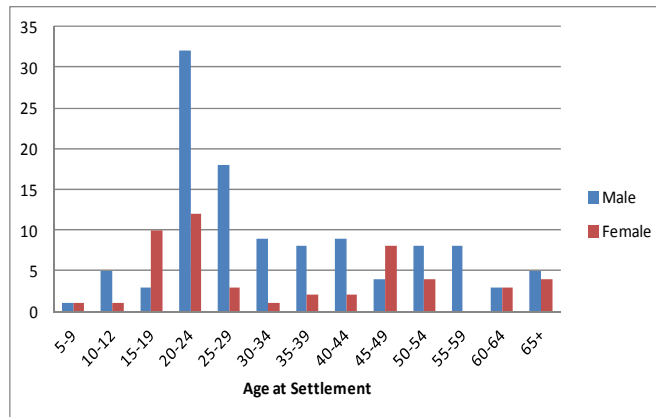
- Brain or spinal injuries
- Average age at settlement: 34

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Profile of a PPO

Number of PPOs by age at settlement

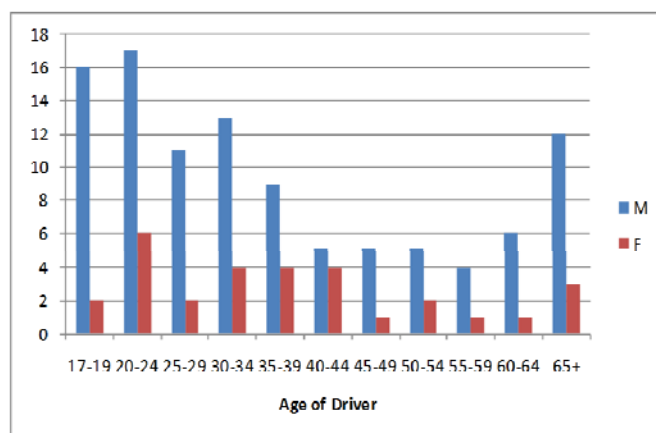


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Profile of a PPO

Number of PPOs by age of driver

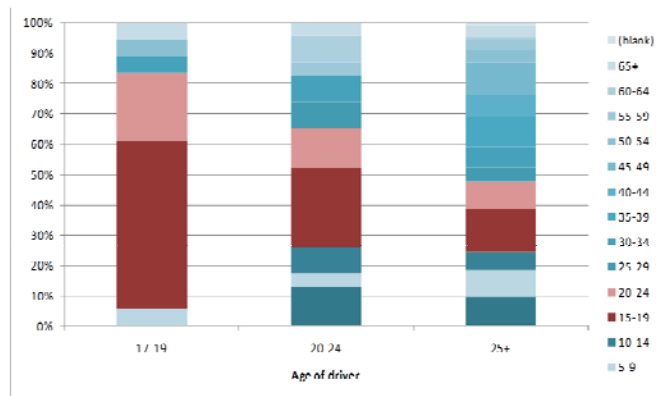


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Profile of a PPO

Age of driver against age of claimant at the time of the accident



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Profile of a Motor PPO

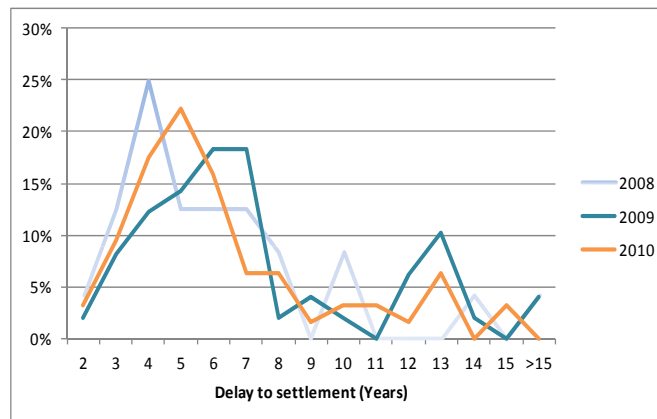
- Brain or spinal injuries
- Average age at settlement: 34
- Delay to settlement: 6 years

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Profile of a PPO

Distribution of delay to settlement



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Profile of a Motor PPO

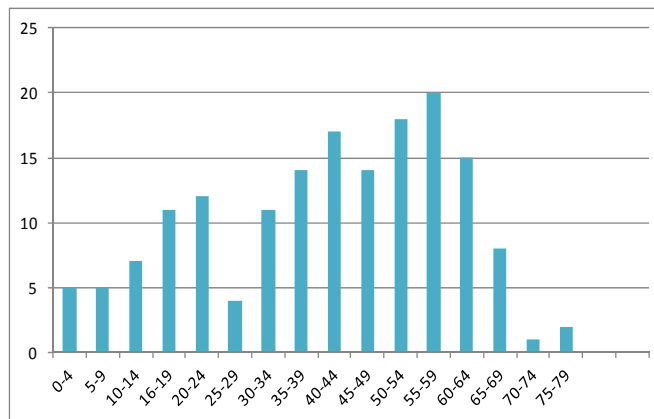
- Brain or spinal injuries
- Average age at settlement: 34
- Delay to settlement: 6 years
- Future life expectancy at settlement: 41
- Life expectancy reduction: 10 years

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Profile of a PPO

Distribution of future life expectancy at the time of settlement



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Profile of a Motor PPO

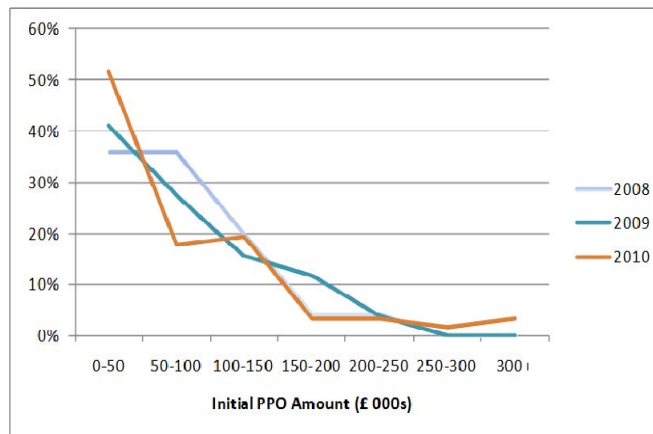
- Brain or spinal injuries
- Average age at settlement: 34
- Delay to settlement: 6 years
- Future life expectancy at settlement: 41
- Life expectancy reduction: 10 years
- Indexation linked to ASHE 6115
- Annual PPO payment: £80k
- Lump sum: £2m

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Profile of a PPO

Distribution of initial PPO payment amount

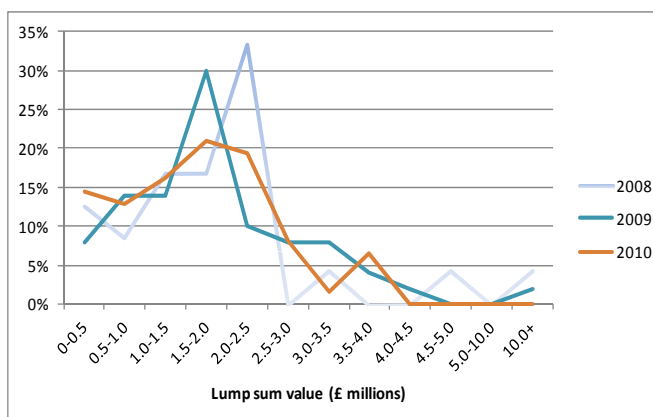


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Profile of a PPO

Distribution of lump sum payment amounts



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Industry Survey 2011

Profile of a PPO

Additional measures in 2011

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- Nature of Injury

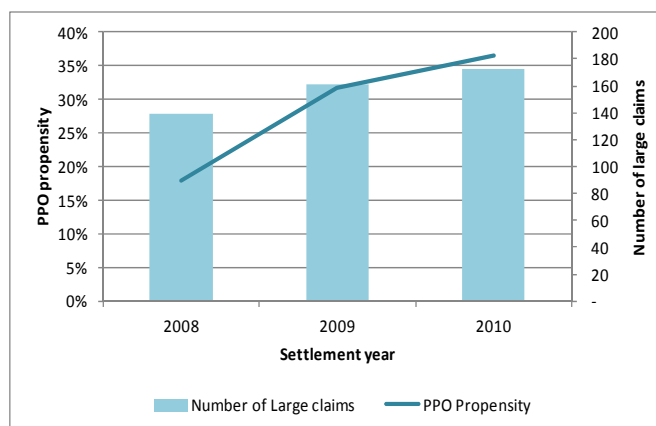
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Overall propensity

Number of large claims (>£1m) which settle as PPOs

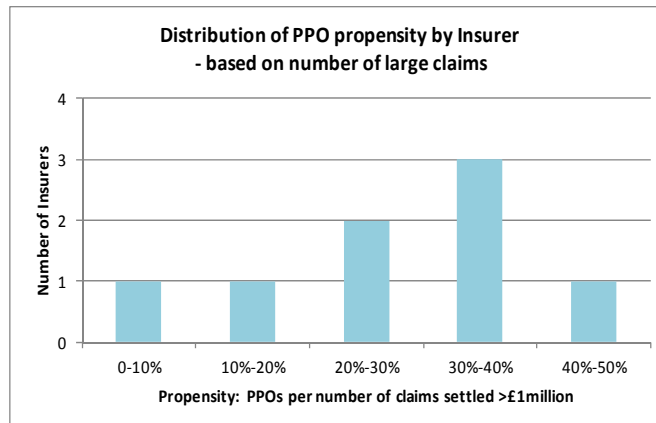


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Propensity by insurer

Variation in propensity between insurers



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Industry Survey 2011

Profile of a PPO

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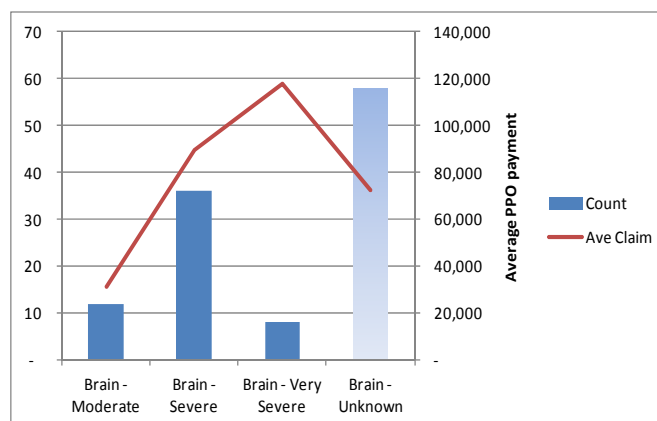
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Brain Injury PPOs

Initial payment amount (£)

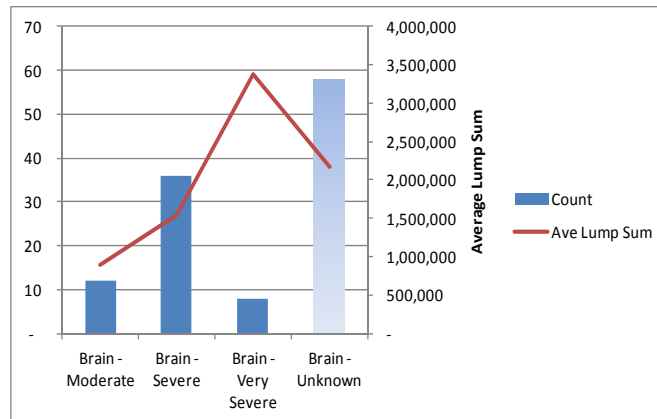


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Brain Injury PPOs

Lump sum amount (£)

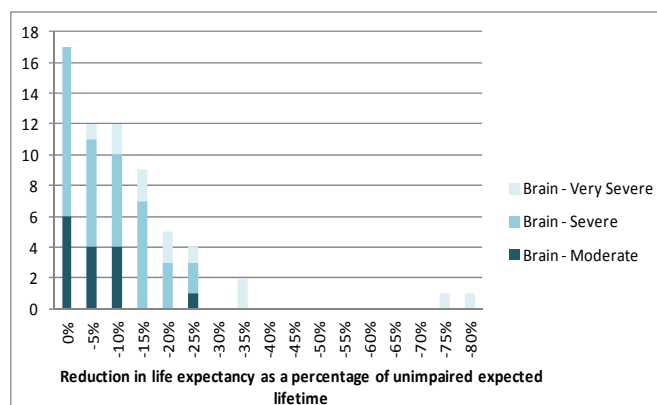


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Brain Injury PPOs

Percentage reduction in life expectancy



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Industry Survey 2011

Profile of a PPO

Additional measures in 2011

- Propensity
- MIB experience
- Liability PPOs
- Nature of Injury

Current reserving practice

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Reserving practice

Claims can be split into different elements for reserving purposes

- Claims settled as PPO (in payment)
- Future PPOs
 - Claims notified but not yet settled as PPO: IBNER
 - Claims not yet notified: IBNR

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Current reserving practice

PPOs in payment

- Similar practice across the industry
 - Reserves calculated on an individual basis
 - NPV cashflow approach
- Differences in assumptions used
 - Earnings inflation
 - Life expectancy
 - Investment return

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Reserving practice

Annuity certain approach

- Assume payments will be made with certainty for every year of future life expectancy

Probabilistic approach

- Take into account probability of survival for all future payments

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Reserving practice

Reserves may increase from year to year

- Once survived a year, an individual's life expectancy will have increased
- Effect of the discount unwinding

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Current reserving practice

- Claims settled as PPO (in payment)
- Future PPOs
 - Claims already reported but not yet settled as PPOs
 - IBNR claims

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Current Reserving Practice

Future PPOs

- No consistent approach in the market
- Significant element of the reserves – delay to settlement
- Almost all respondents monitor open claims for likelihood of turning into a PPO
 - Variety of ways this is achieved

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Observations

- Lack of consistency in / disclosure of assumptions
 - Economic assumptions
 - Life expectancy
- Nature of injury
- Life insurance methodologies
 - (Re)education needed

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1. Scope of Work
2. Excess of Capped TPI results
 - Data Trends
 - Projected Ultimates
 - Analyses of Largest Claims
 - Adequacy of Case Estimates
 - Benchmark Development Patterns
3. PPO content
4. 2 + 3 = 4

Appendices

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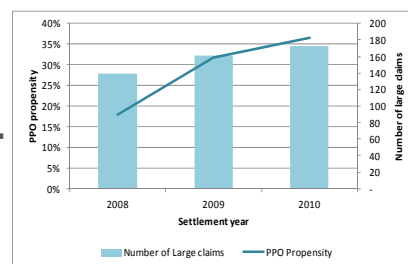
66

2 + 3 = ? Projected Ultimate Number of PPOs

Private Car Comprehensive Frequency (in layer and above)
(claims per million vehicle years)

| Accident Year | £1m - 2m | £2m - 5m | > £5m |
|---------------|----------|----------|-------|
| 2002 | 6.9 | 3.0 | 0.8 |
| 2003 | 5.7 | 2.3 | 0.7 |
| 2004 | 5.8 | 3.1 | 0.7 |
| 2005 | 6.0 | 2.8 | 0.6 |
| 2006 | 6.8 | 3.7 | 1.0 |
| 2007 | 6.4 | 3.2 | 1.0 |
| 2008 | 6.9 | 3.9 | 1.6 |
| 2009 | 9.7 | 5.8 | 2.2 |
| 2010 | 7.2 | 4.3 | 2.5 |

+



Ultimate number of PPOs (as at now):
2 to 4 times* the current settled number

*based on a number of 'herioc' assumptions
- see overleaf

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2 + 3 = ?

Considerations

- The propensity rate changes over time, so selecting a single rate will not necessarily be appropriate. In particular there is a suggestion that there has been a slow down in the number of PPOs being settled in 2011.
 - The TP WP data is on an accident year basis, and the PPO WP has propensities by settlement year – and which can be seen to vary by settlement year.
 - The exposure data used only goes back to 2002 – delays can occur up to 15 years (especially where minors are concerned).
 - Similarly (and with opposite effect) some of the PPOs already settled and in the PPO WP survey data will relate to accident years prior to 2002.
 - The propensity rates vary significantly from insurer to insurer.
 - Central propensity rates selected were lower than the 2010 settlement year rates from the PPO WP survey
- The large claim frequencies from the TP WP only relate to private car comprehensive policies, which is only ~57% of PPOs in the PPO WP survey. There may be differences in experience and hence propensities with Commercial and Non Comprehensive type exposures.
- This analysis does not include PPOs emerging from liability covers, nor the whole of the UK motor market.

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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.



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The Actuarial Profession
making financial sense of the future

Third Party Working Party Appendices



12 October 2011

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Appendices

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

The Actuarial Profession
making financial sense of the future

Update from the Third Party Working Party

Raw outputs from Working Party



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5. Excess of Capped TPI results

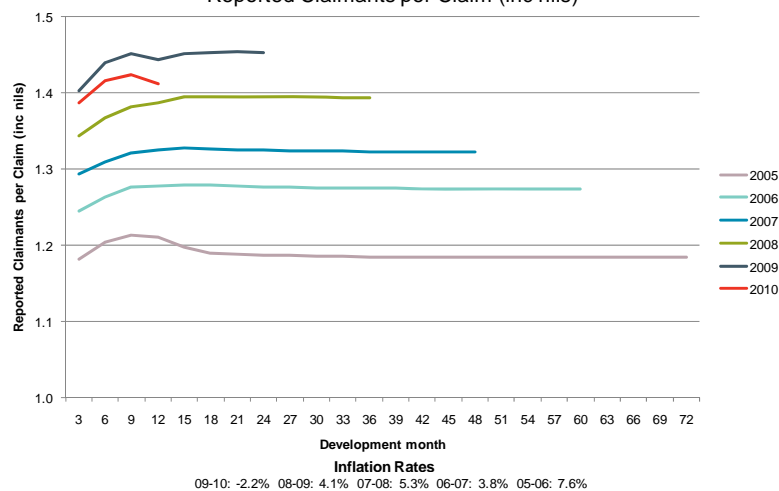
- Data Trends
- Projected Ultimates
- Analyses of Largest Claims
- Adequacy of Case Estimates

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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)

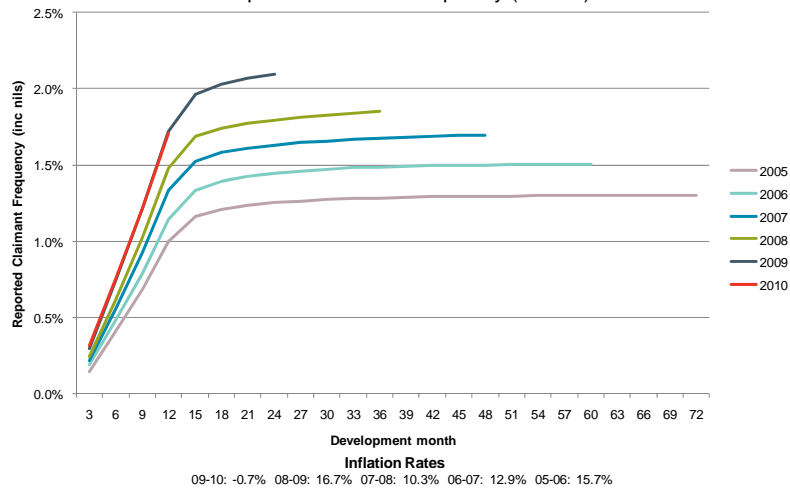


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Private Car Comprehensive Reported claimant frequency

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



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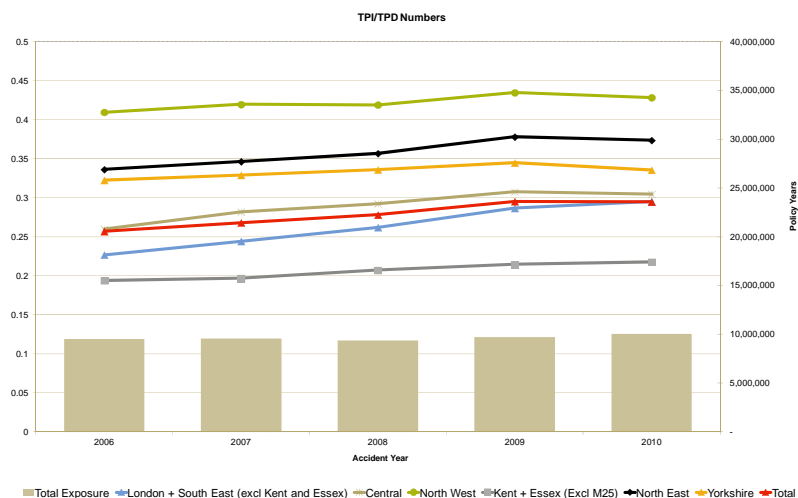
Private Car Comprehensive Experience by TV Region

- 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.

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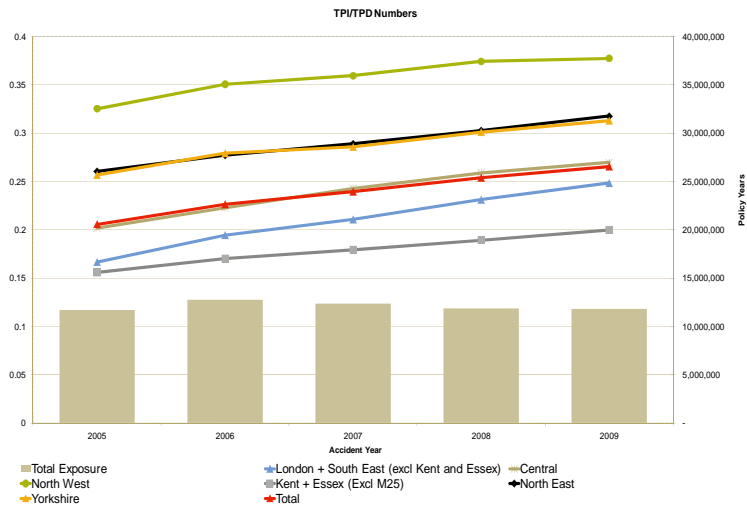
TPI / TPD numbers by TV region (Private Car Comprehensive)



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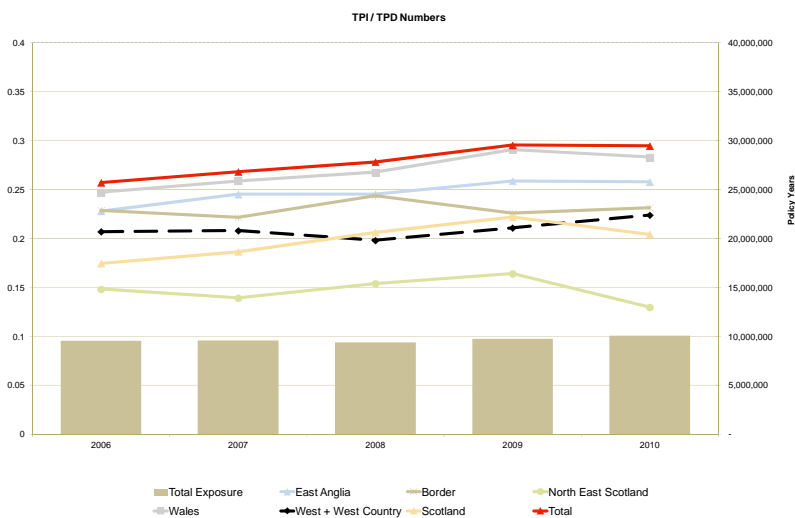
TPI / TPD numbers by TV region (Private Car Comprehensive) – 2010 analysis for comparison



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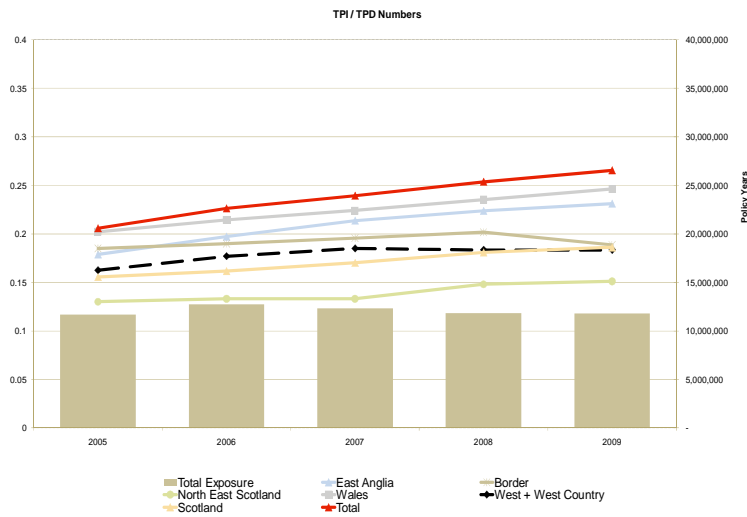
TPI / TPD numbers by TV region (Private Car Comprehensive)



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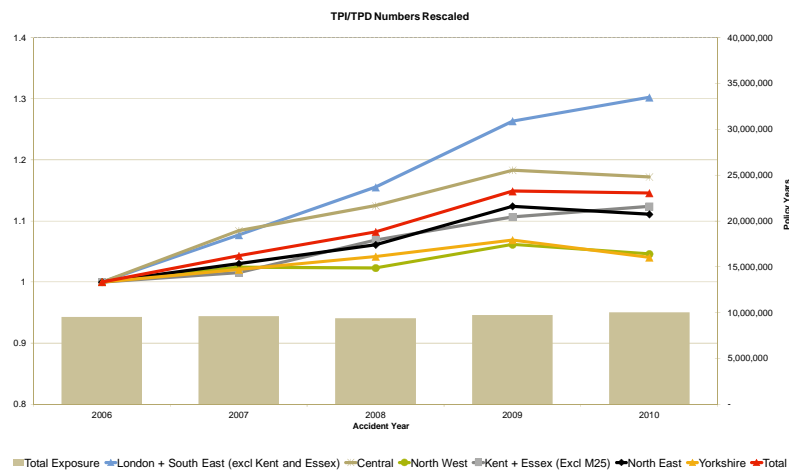
81

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



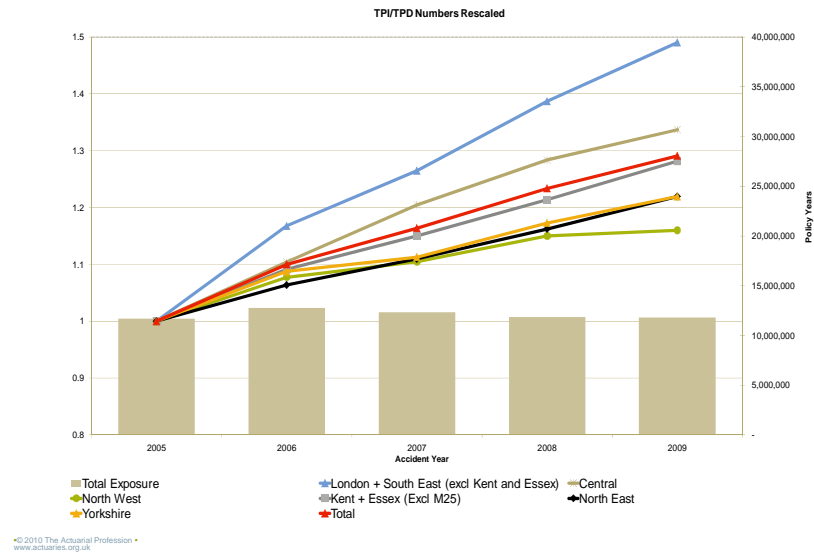
82

Change in TPI / TPD Numbers (Private Car Comprehensive)



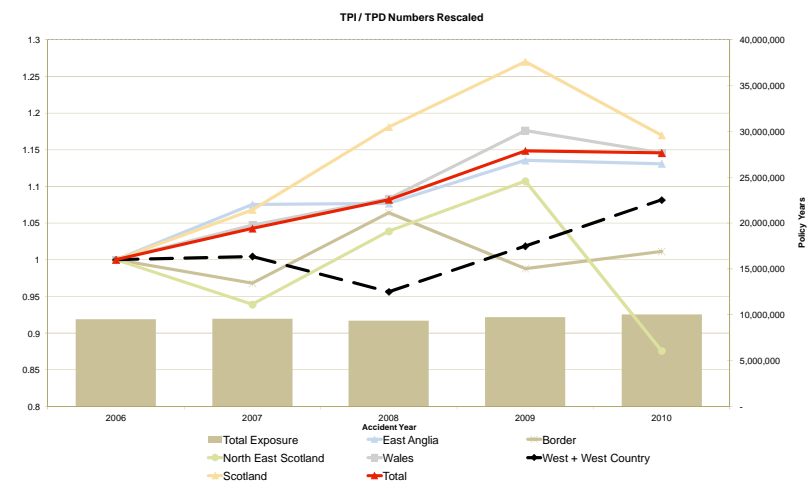
83

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



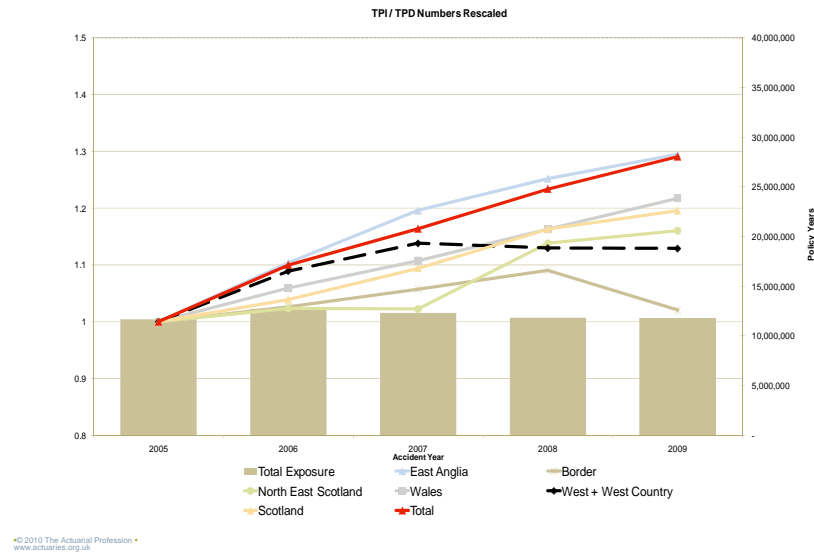
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Change in TPI / TPD Numbers (Private Car Comprehensive)



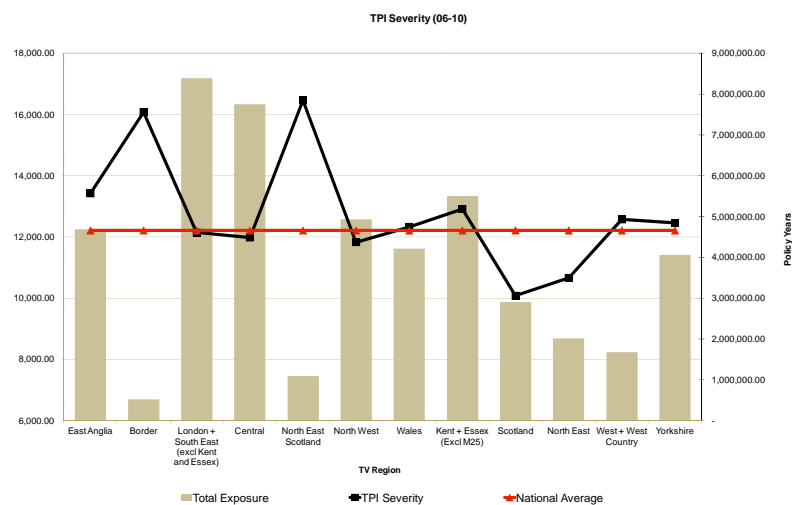
85

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



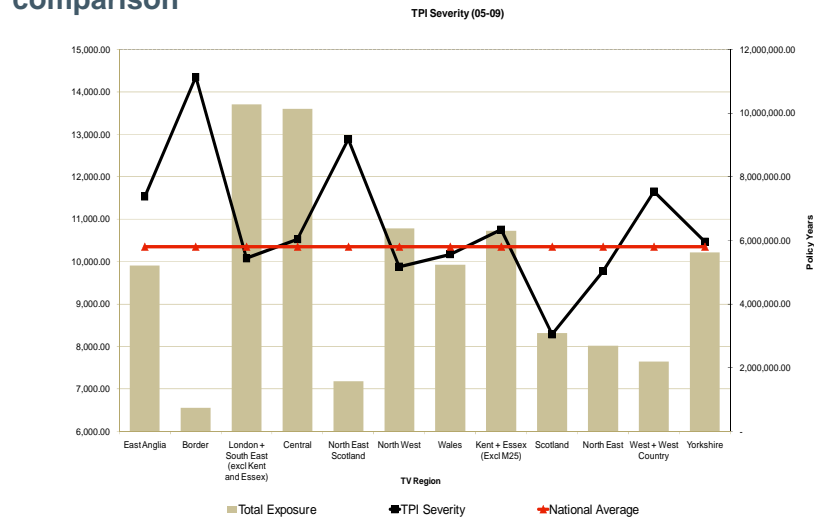
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Third Party Injury average cost by TV region (Private Car Comprehensive)



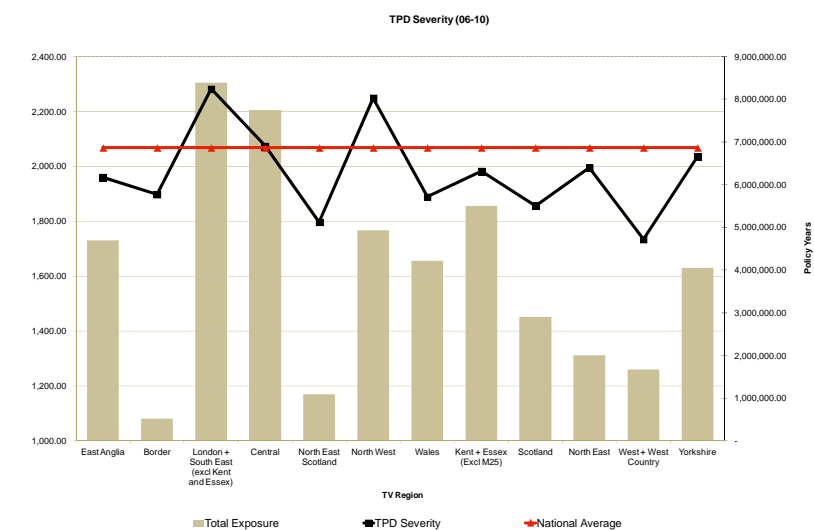
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Third Party Injury average cost by TV region (Private Car Comprehensive) – 2010 analysis for comparison



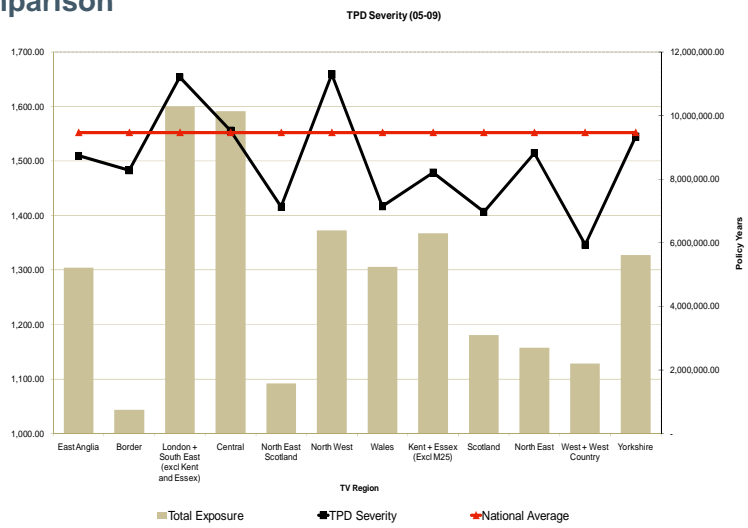
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Third Party Damage average cost by TV region (Private Car Comprehensive)



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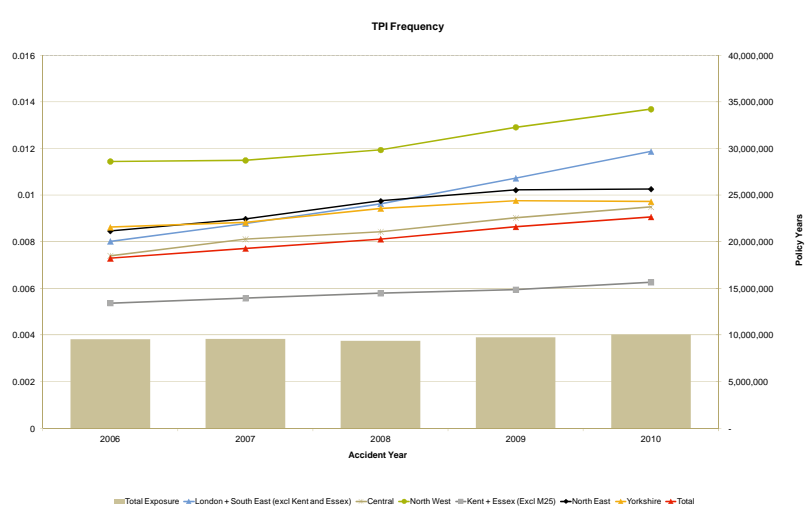
Third Party Damage average cost by TV region (Private Car Comprehensive) – 2010 analysis for comparison



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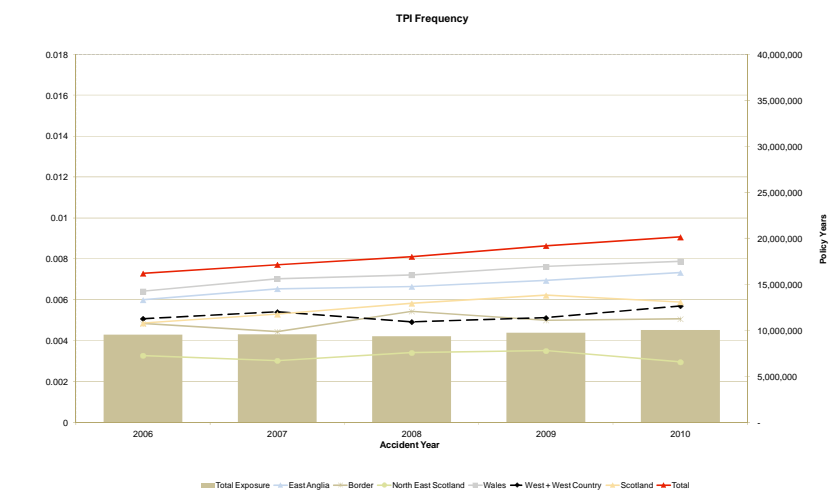
TPI Frequency by TV region (Private Car Comprehensive)



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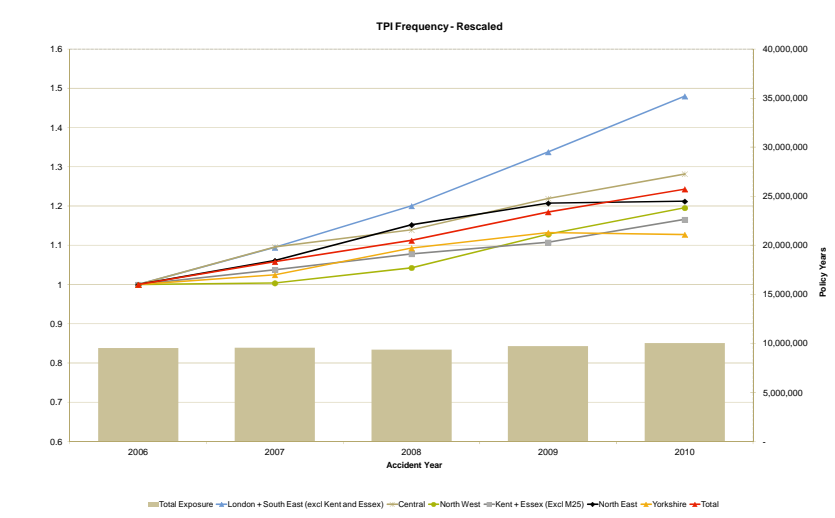
TPI Frequency by TV region (Private Car Comprehensive)



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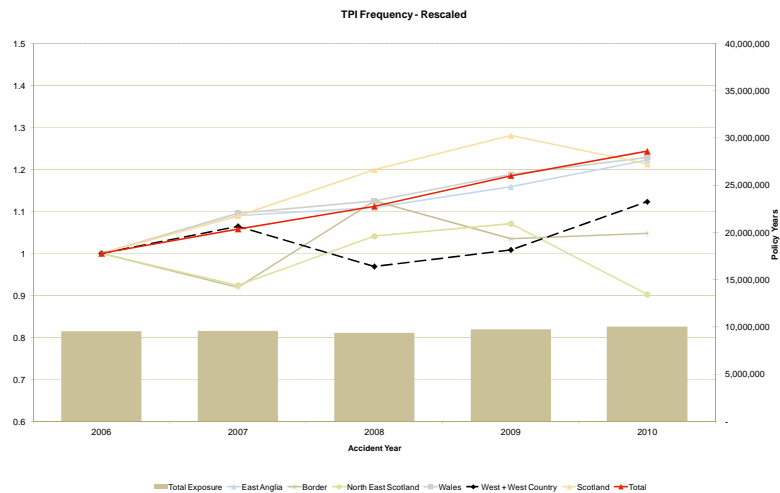
TPI Frequency by TV region (Private Car Comprehensive)



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TPI Frequency by TV region (Private Car Comprehensive)



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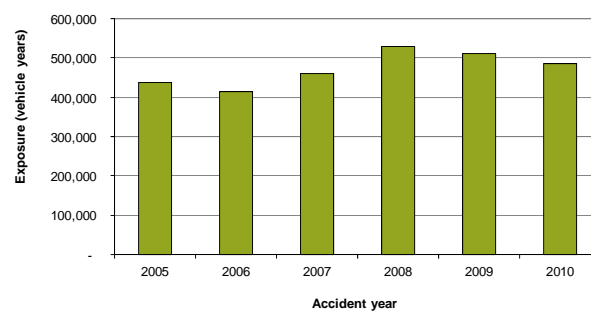
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Notes to Accident Year Triangles

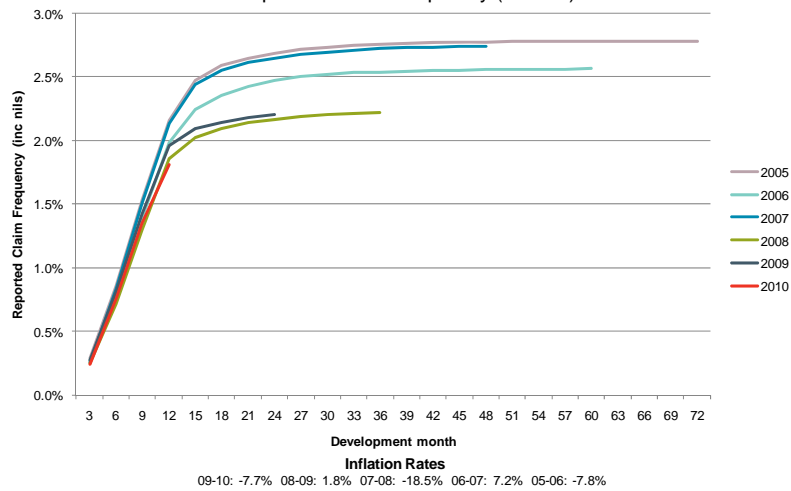
- Most of the graphs show industry accident year triangulation progressions
- This facilitates the comparison of experience on a “like-for-like” basis (at least in relation to development)
- Inflation rates shown are the latest point in the year compared to the previous accident year at the same point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

Motorcycle exposure



Motorcycle

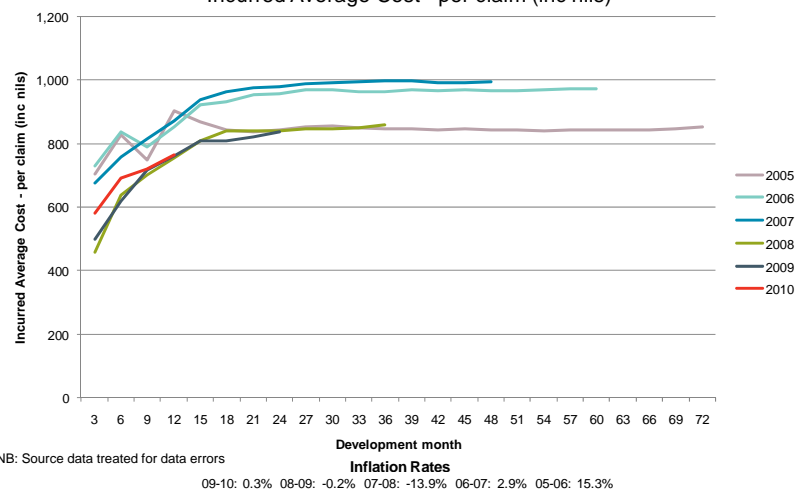
Motorcycle - All Distribution Channels - TPD
Reported Claim Frequency (inc nils)



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Motorcycle

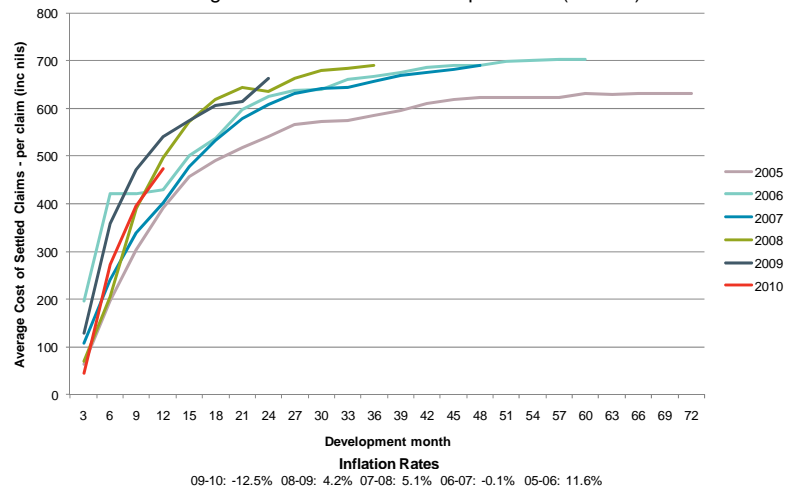
Motorcycle - All Distribution Channels - TPD
Incurred Average Cost - per claim (inc nils)



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Motorcycle

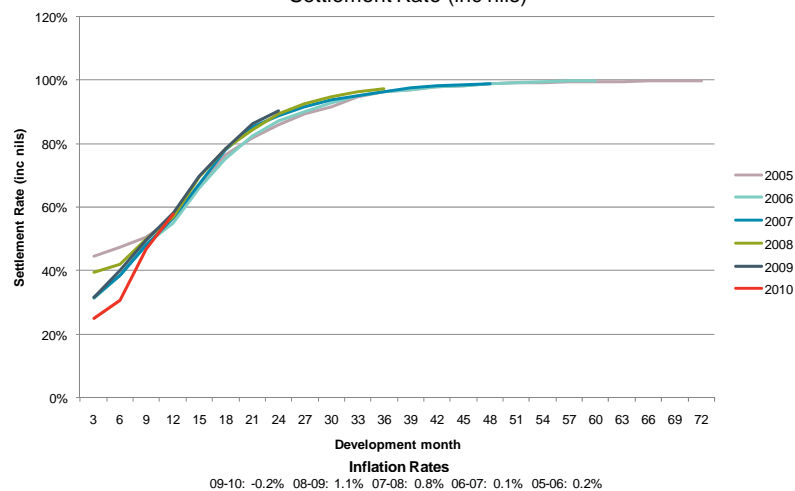
Motorcycle - All Distribution Channels - TPD
Average Cost of Settled Claims - per claim (inc nils)



100

Motorcycle

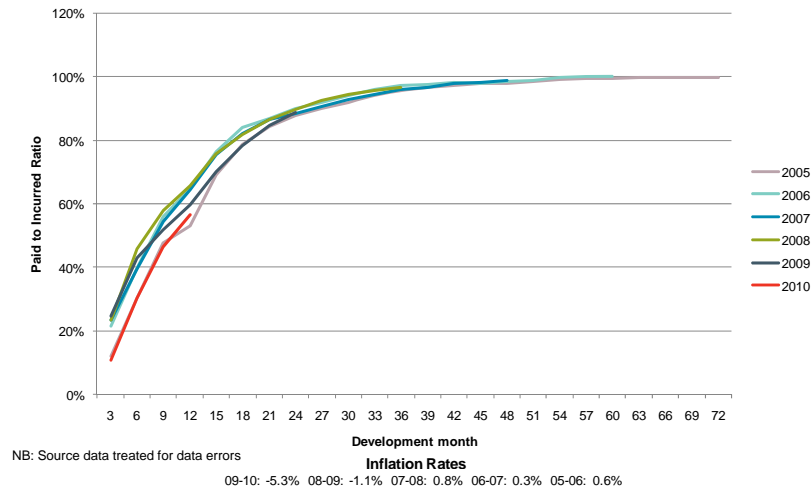
Motorcycle - All Distribution Channels - TPD
Settlement Rate (inc nils)



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Motorcycle

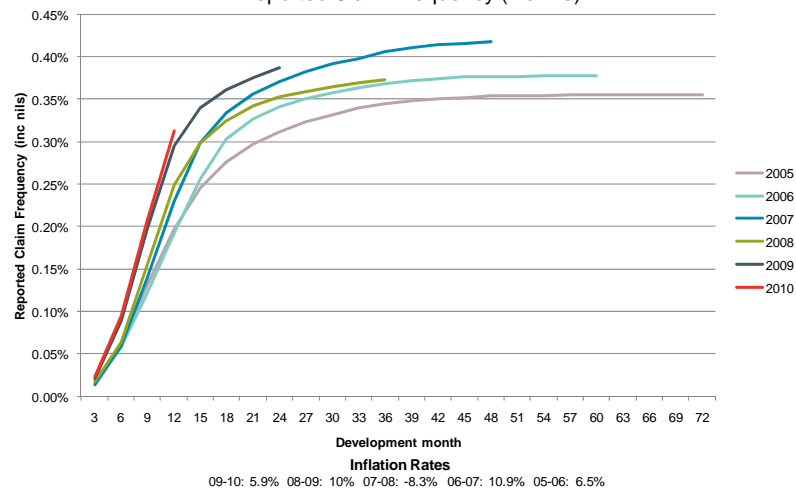
Motorcycle - All Distribution Channels - TPD
Paid to Incurred Ratio



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Motorcycle

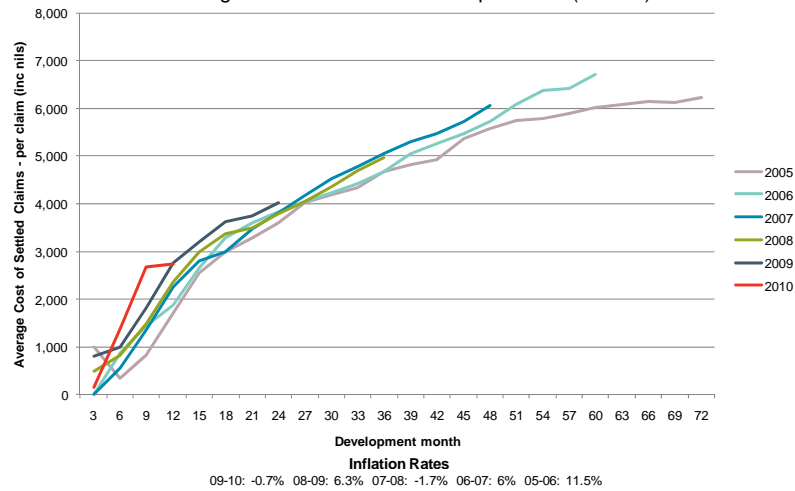
Motorcycle - All Distribution Channels - TPI Capped
Reported Claim Frequency (inc nils)



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Motorcycle

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

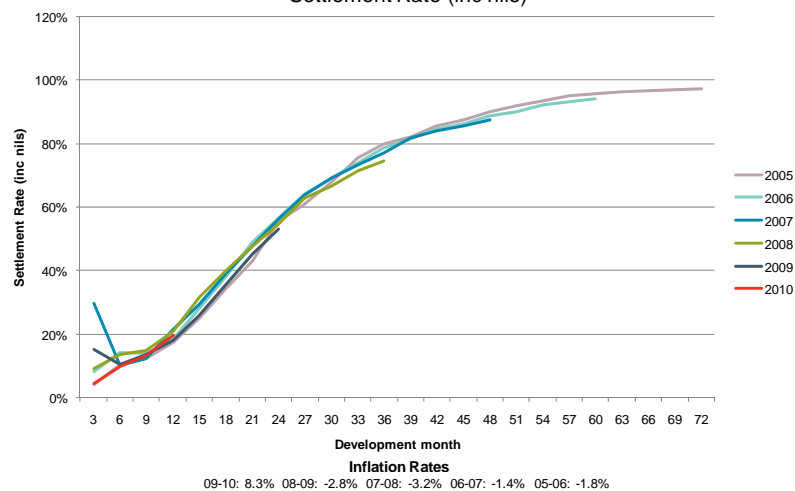


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Motorcycle

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

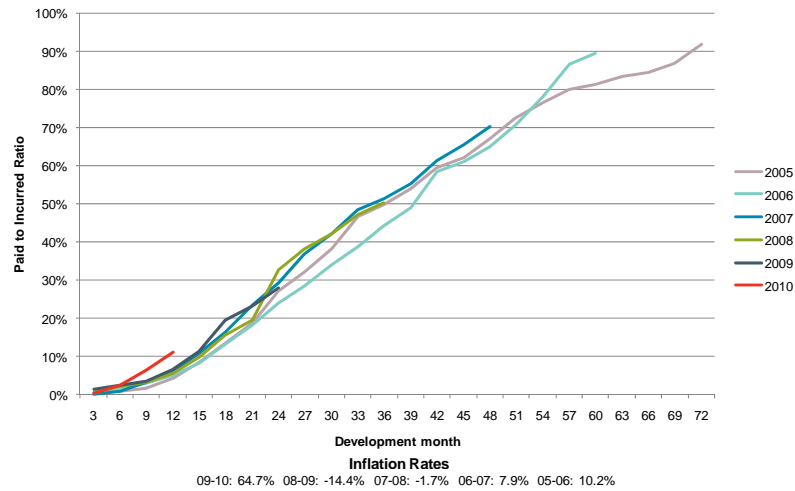


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Motorcycle

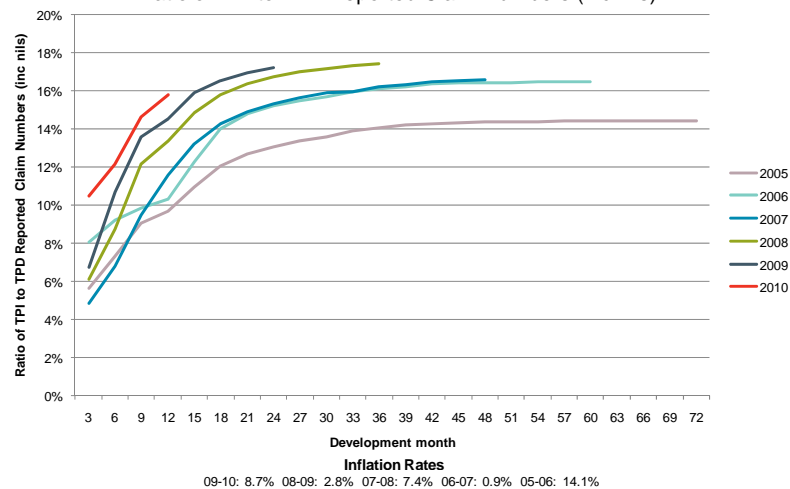
Motorcycle - All Distribution Channels - TPI Capped
Paid to Incurred Ratio



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Motorcycle

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



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

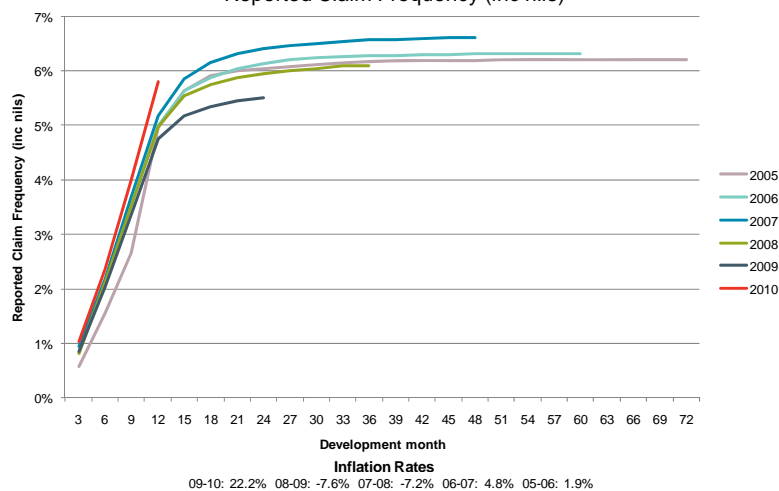
- The Working Party has decided not to release charts where prior year trends have changed significantly from last year's analysis where this has been due to contributors providing data which Towers Watson (or the contributors) do not believe to be accurate. Such decisions have typically followed discussions 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.

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CV

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



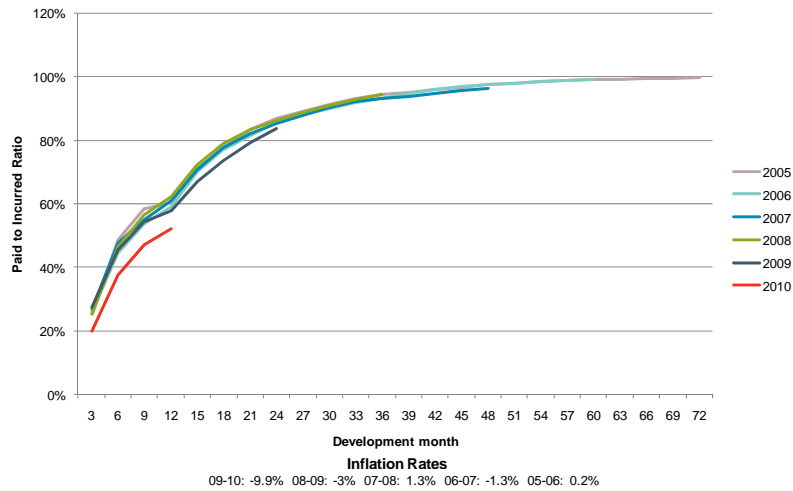
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CV

CV - All Distribution Channels - TPD

Paid to Incurred Ratio

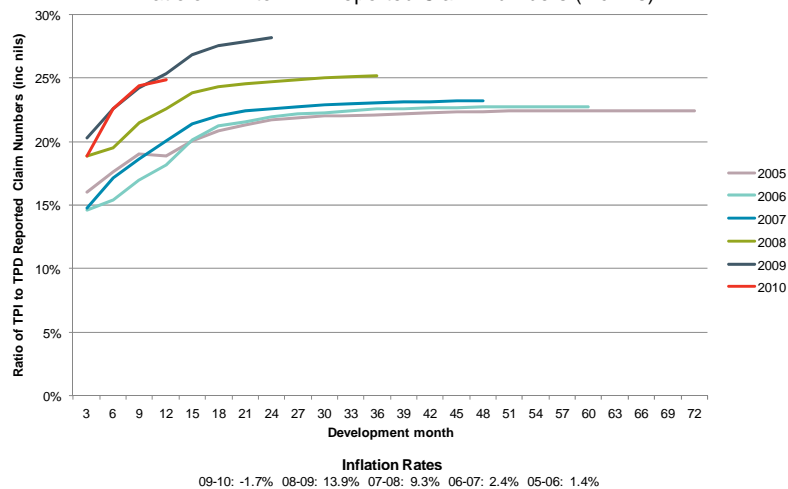


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CV

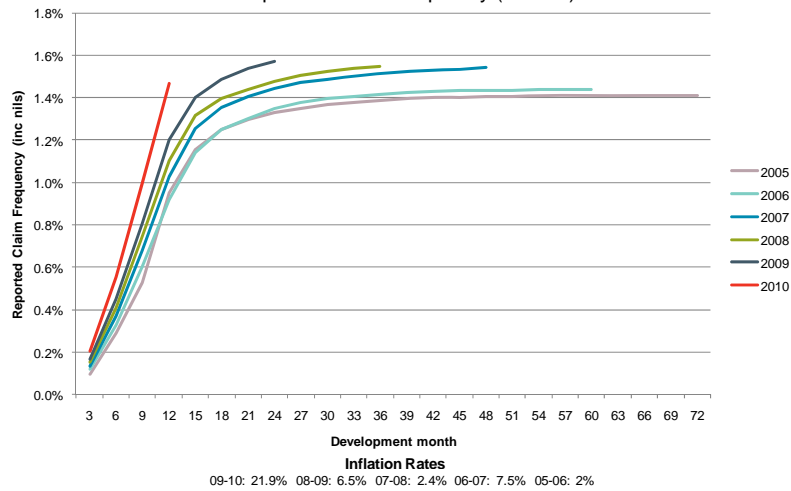
CV - All Distribution Channels

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



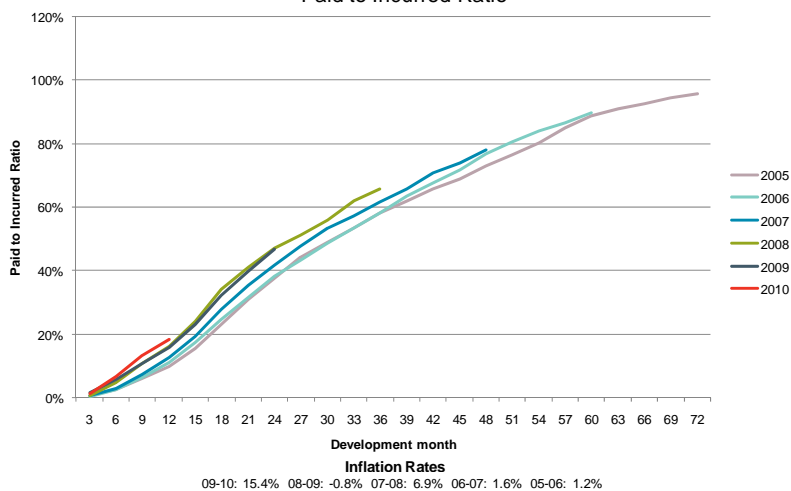
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CV

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


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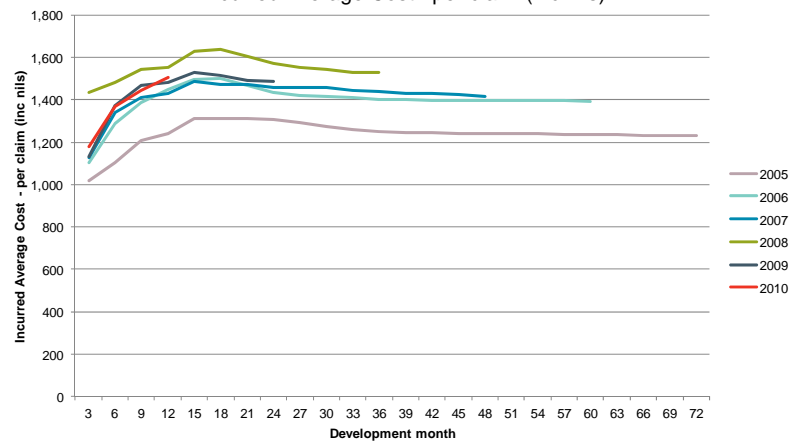
CV

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


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Fleet

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



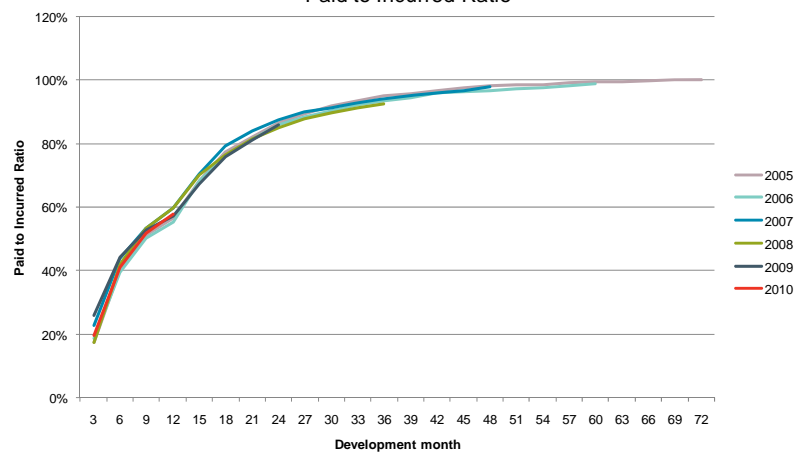
Inflation Rates
09-10: 1.7% 08-09: -5.4% 07-08: 6.2% 06-07: 1.2% 05-06: 12.9%

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Fleet

Fleet - All Distribution Channels - TPD
Paid to Incurred Ratio



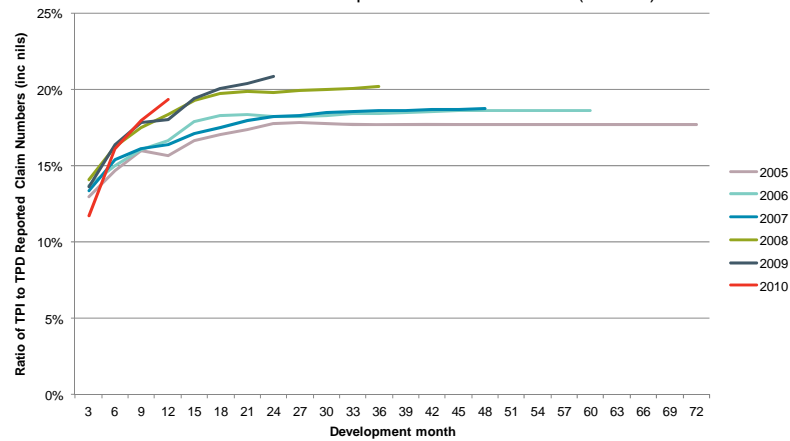
Inflation Rates
09-10: 1.6% 08-09: 1.2% 07-08: -1.7% 06-07: 1.2% 05-06: -0.7%

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Fleet

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



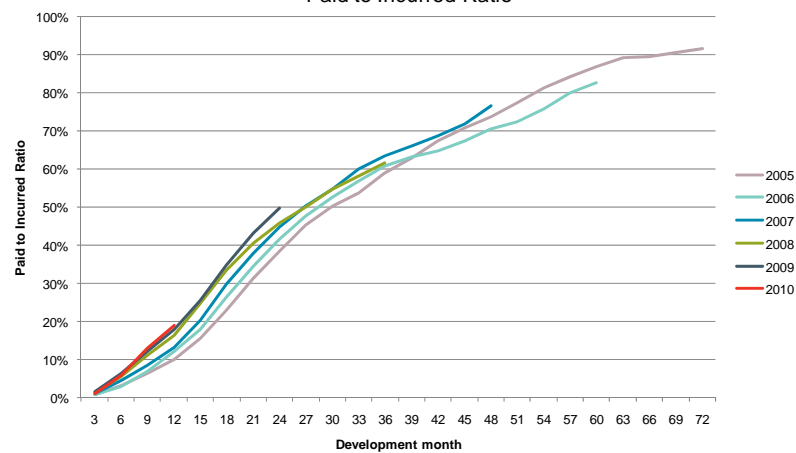
Inflation Rates
09-10: 7.3% 08-09: 5% 07-08: 8.8% 06-07: 0.6% 05-06: 5.2%

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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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Benchmark Development - Incurred

Private Car Comprehensive - Excess BI Incurred Claims Development Pattern

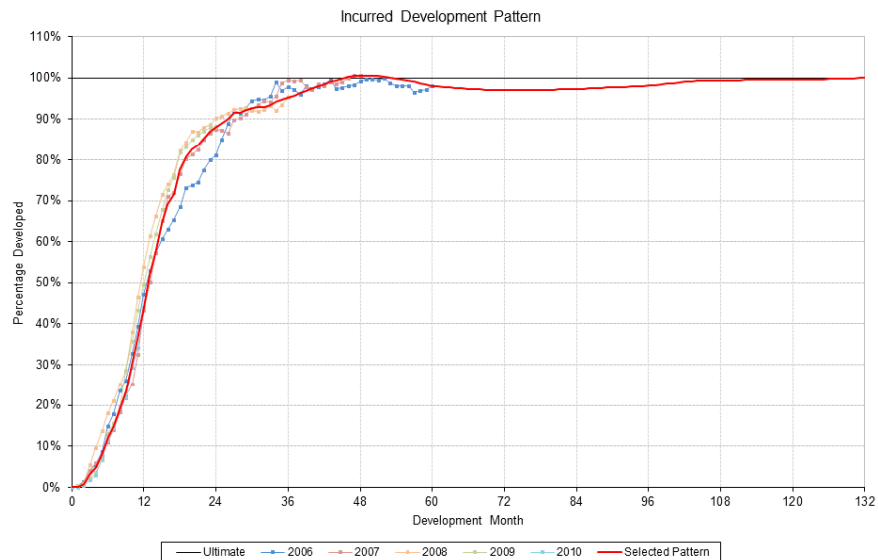
| Start Month | Development Month | | | | | | | | | | | |
|-------------|-------------------|--------|--------|--------|--------|-------|-------|-------|-------|--------|--------|--------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 1 | 0.1% | 0.8% | 3.0% | 4.9% | 7.9% | 12.3% | 14.9% | 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% | 98.6% | 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...

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Benchmark Development - Incurred



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Benchmark Development - Reported

Private Car Comprehensive - Excess BI Claim Numbers Development Pattern

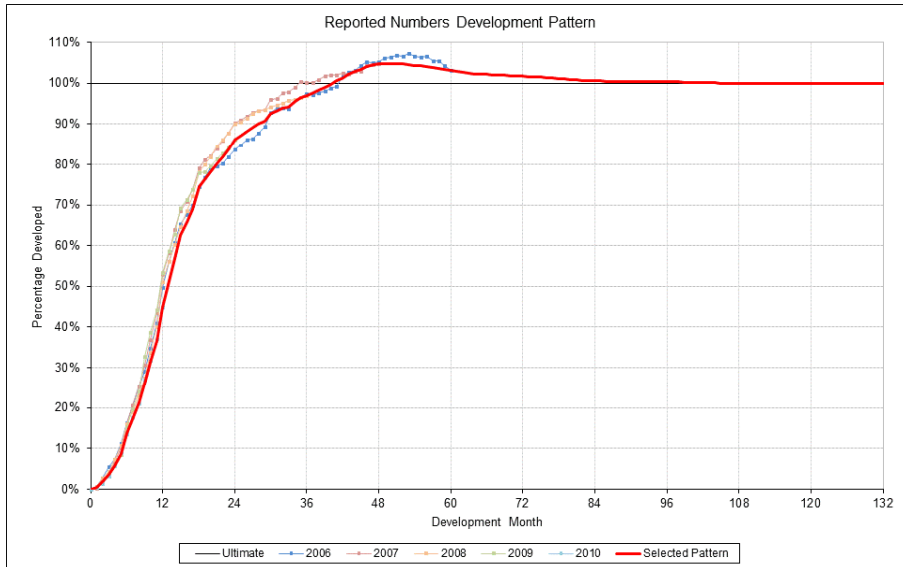
| Start Month | Development Month | | | | | | | | | | | |
|-------------|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 1 | 0.4% | 1.8% | 3.6% | 5.8% | 8.8% | 13.7% | 17.3% | 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% | 100.1% | 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...

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Benchmark Development - Reported



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1. Additional statistics for Private Car Comprehensive Capped TPI
 - Claimants per claim
 - Reported claimant frequency
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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

- 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

- 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 |

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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 |
| Total | 112.3 | 73% | 10,937 | |

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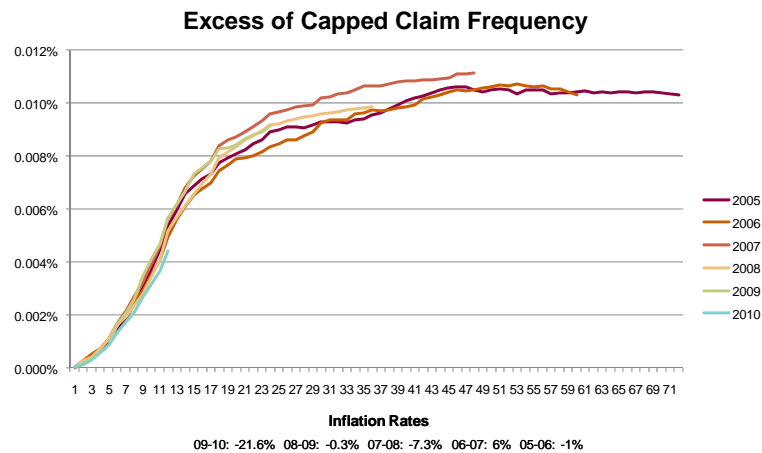
Excess of Capped TPI Analysis Background to following charts

- 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.

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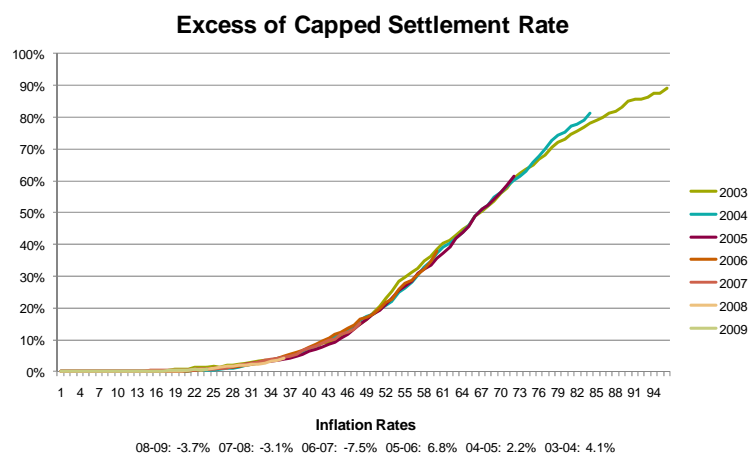
Excess of Capped TPI Analysis Data Trends



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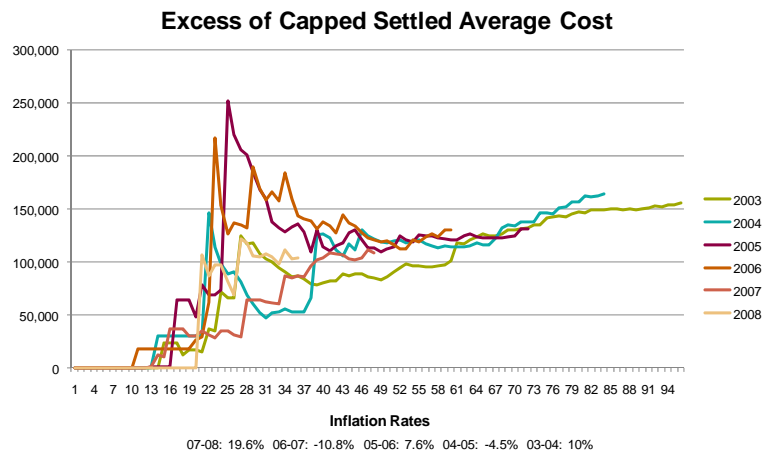
Excess of Capped TPI Analysis Data Trends



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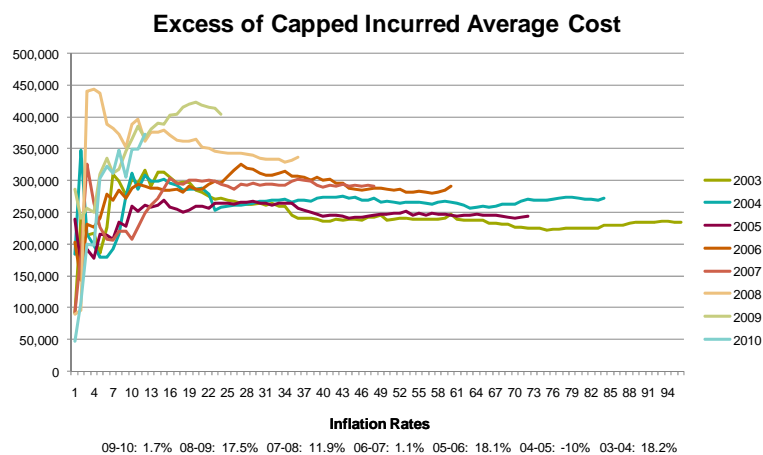
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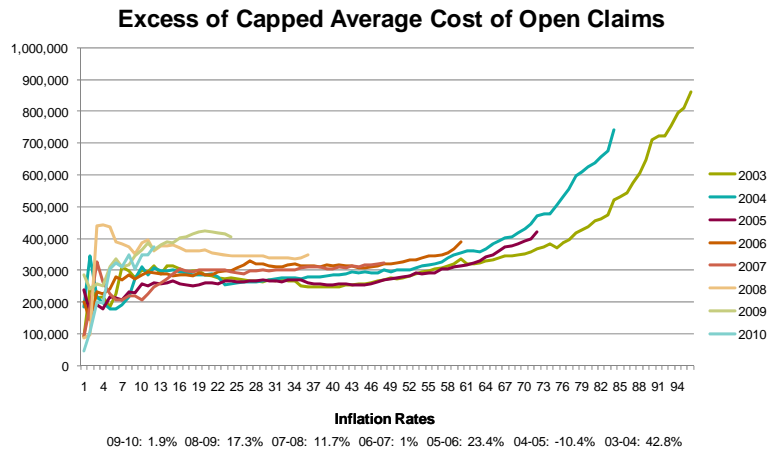
Excess of Capped TPI Analysis Data Trends



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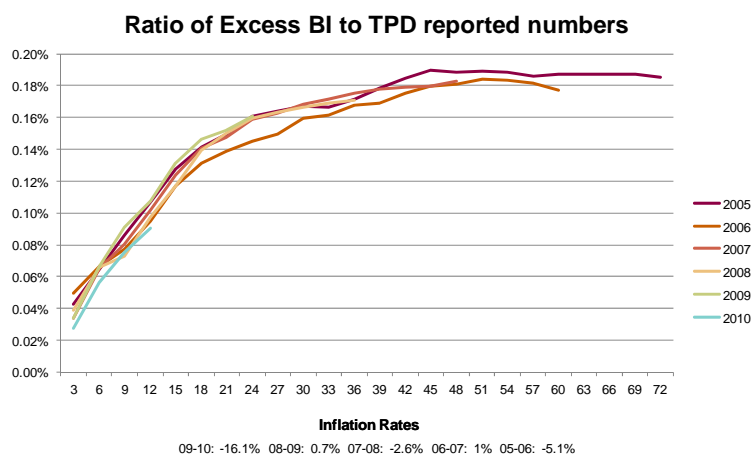
Excess of Capped TPI Analysis Data Trends



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Excess of Capped TPI Analysis Data Trends



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Excess of Capped TPI Analysis Projected Ultimate Claims

- 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

- 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

- 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

- 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

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Excess of Capped TPI Analysis Projected Ultimate Claims

Projected Ultimate Excess of Capped TPI Results for Private Car Comprehensive

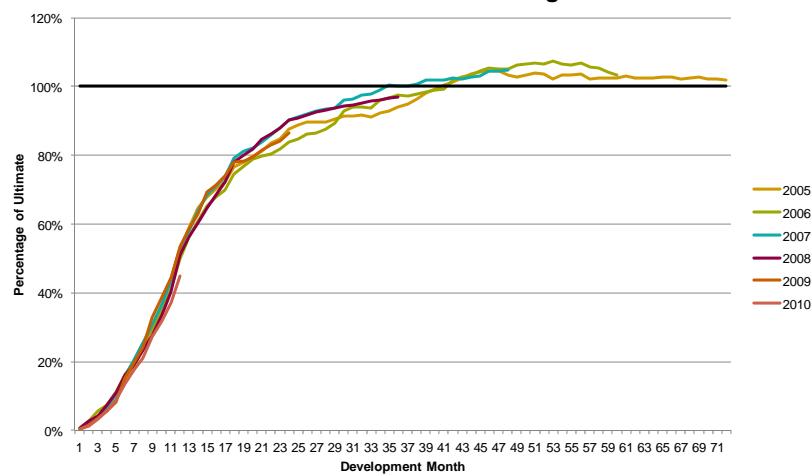
| Accident Period | Earned Exposure (millions of vehicle years) | Ultimate Excess of Capped Claim Frequency (claims per million vehicle years) | Ultimate Excess of Capped Claim Severity (£) | Ultimate Excess of Capped Burning Cost (£) | Year-on-Year Change in Frequency (% pa) | Year-on-Year Change in 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% | 20.1% |
| 2010 | 12.96 | 99 | 378,975 | 37.5 | -6.6% | -4.1% | -10.5% |

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Excess of Capped TPI Analysis Projected Ultimate Claims

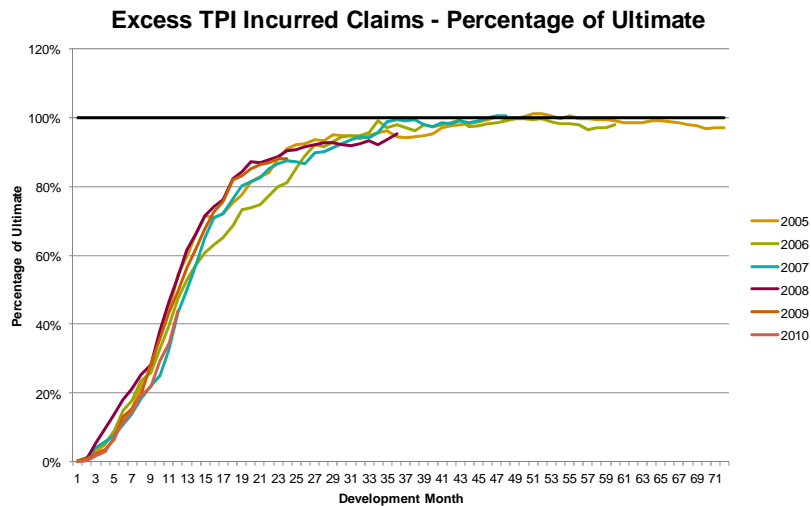
Excess TPI Claim Numbers - Percentage of Ultimate



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Excess of Capped TPI Analysis Projected Ultimate Claims



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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 |
|--|--------------|--------------|------------|----------|----------|-------|
| Frequency (in layer and above) (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 |
| Average Cost (£000s) | | | | | | |
| 2002 | 93 | 171 | 343 | 614 | 1,643 | 3,802 |
| 2003 | 92 | 174 | 321 | 586 | 1,524 | 1,368 |
| 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 |
| Burning Cost (£) | | | | | | |
| 2002 | 6.3 | 4.7 | 4.8 | 4.2 | 4.9 | 3.2 |
| 2003 | 6.2 | 4.8 | 4.2 | 3.3 | 3.6 | 1.6 |
| 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 |

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Excess of Capped TPI Analysis Projected Ultimate Claims

Private Car Comprehensive Excess Results in Layer

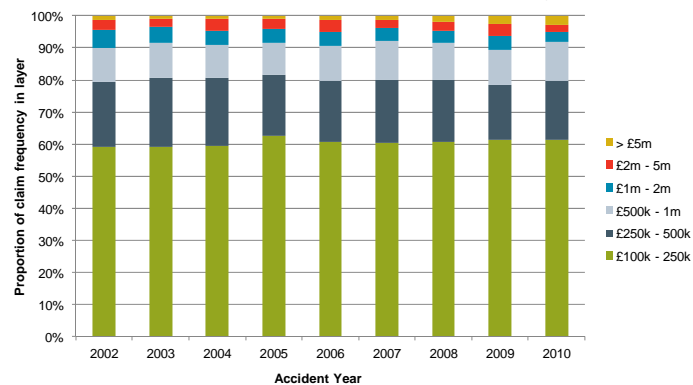
| Accident Year | £100k - 250k | £250k - 500k | £500k - 1m | £1m - 2m | £2m - 5m | > £5m |
|---|--------------|--------------|------------|----------|----------|-------|
| Proportion of claim numbers in layer above | | | | | | |
| 2002 | 41% | 51% | 49% | 43% | 28% | |
| 2003 | 41% | 48% | 44% | 41% | 32% | |
| 2004 | 41% | 48% | 46% | 52% | 21% | |
| 2005 | 37% | 50% | 45% | 47% | 21% | |
| 2006 | 39% | 51% | 47% | 54% | 27% | |
| 2007 | 40% | 51% | 38% | 45% | 32% | |
| 2008 | 39% | 51% | 42% | 57% | 40% | |
| 2009 | 39% | 55% | 50% | 59% | 39% | |
| 2010 | 39% | 52% | 41% | 60% | 58% | |
| Proportion of xs 100k numbers | | | | | | |
| 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% | 38% | 20% | 8% | 5% | 2.9% |

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Excess of Capped TPI Analysis Projected Ultimate Claims

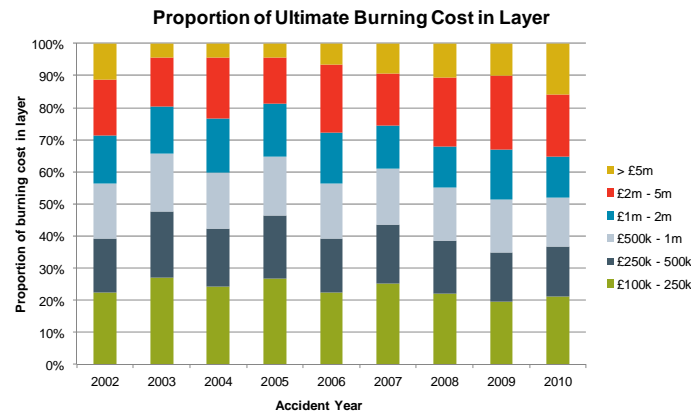
Proportion of Ultimate Claim Frequencies in Layer



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Excess of Capped TPI Analysis Projected Ultimate Claims



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Excess of Capped TPI Analysis Projected Ultimate Claims

- 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

| | | |
|--------------|------------------------------------|---------|
| Frequency | (claims per million vehicle years) | 108 |
| Severity | (£) | 371,881 |
| Burning Cost | (£) | 40.2 |

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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

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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% | 8% | 6% | 7% | | | | |
| 2004 - 2007 | -1% | 7% | 7% | 7% | | | | | |
| 2005 - 2008 | 12% | 11% | 11% | | | | | | |
| 2006 - 2009 | 15% | 17% | | | | | | | |
| 2007 - 2010 | 9% | | | | | | | | |
| 5 Year Periods | | | | | | | | | |
| 2003 - 2008 | 5% | 9% | 8% | | | | | | |
| 2004 - 2009 | 9% | 11% | | | | | | | |
| 2005 - 2010 | 7% | | | | | | | | |

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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 | | | | | | | |

Annualised Escalation Rates

3 Year Periods

| | | | | | | | | |
|-------------|-----|-----|-----|----|----|--|--|--|
| 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% | | | | | | | |

5 Year Periods

| | | | | | | | | |
|-------------|----|-----|----|--|--|--|--|--|
| 2003 - 2008 | 6% | 9% | 9% | | | | | |
| 2004 - 2009 | 9% | 12% | | | | | | |
| 2005 - 2010 | 9% | | | | | | | |

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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% | 13% | 9% | 11% | | | |
| 2004 - 2007 | -10% | 5% | 7% | 7% | | | | |
| 2005 - 2008 | 17% | 15% | 17% | | | | | |
| 2006 - 2009 | 16% | 22% | | | | | | |
| 2007 - 2010 | 21% | | | | | | | |

5 Year Periods

| | | | | | | | | |
|-------------|-----|-----|-----|--|--|--|--|--|
| 2003 - 2008 | 9% | 11% | 12% | | | | | |
| 2004 - 2009 | 8% | 14% | | | | | | |
| 2005 - 2010 | 11% | | | | | | | |

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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 | 1 | 2 | Development Year (Figures in £000s) | | | | | |
|-----------|-----|-------|-------------------------------------|-------|-------|-----|-----|-----|
| | 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 | | | | | | | |

| Annualised Escalation Rates | | | | | | | | |
|-----------------------------|-----|-----|-----|----|-----|--|--|--|
| 3 Year Periods | | | | | | | | |
| 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% | | | | | | | |
| 5 Year Periods | | | | | | | | |
| 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

- 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.

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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 | - |

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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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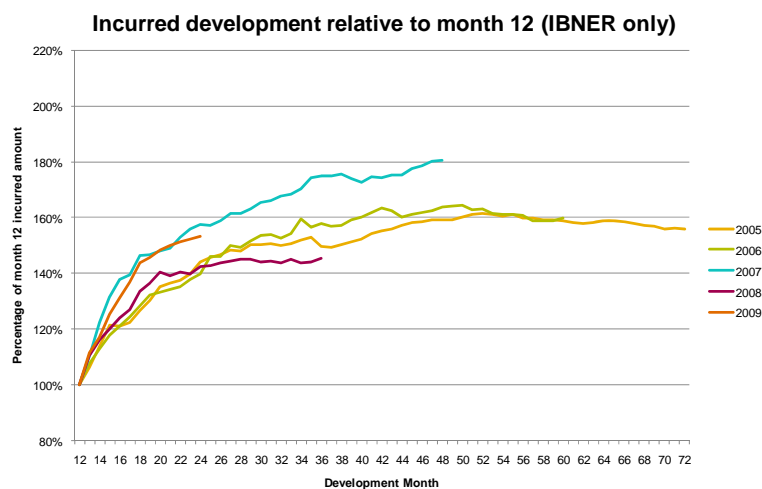
Excess of Capped TPI Analysis Adequacy of Case Estimates

- 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

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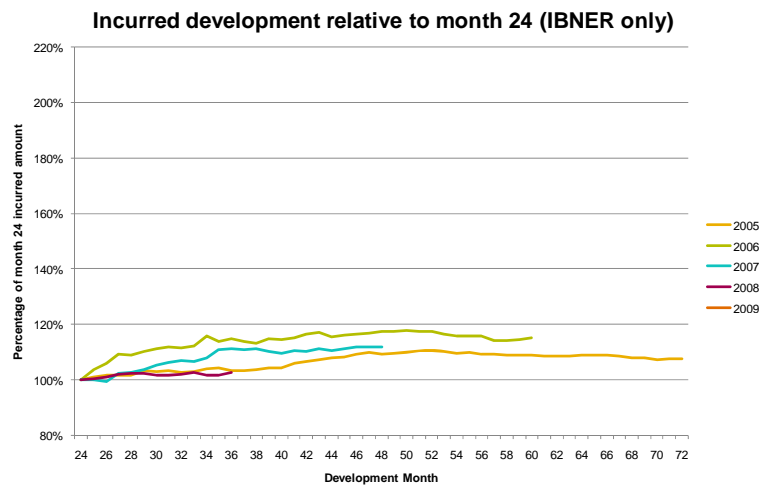
Excess of Capped TPI Analysis Adequacy of Case Estimates



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Excess of Capped TPI Analysis Adequacy of Case Estimates



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Appendices

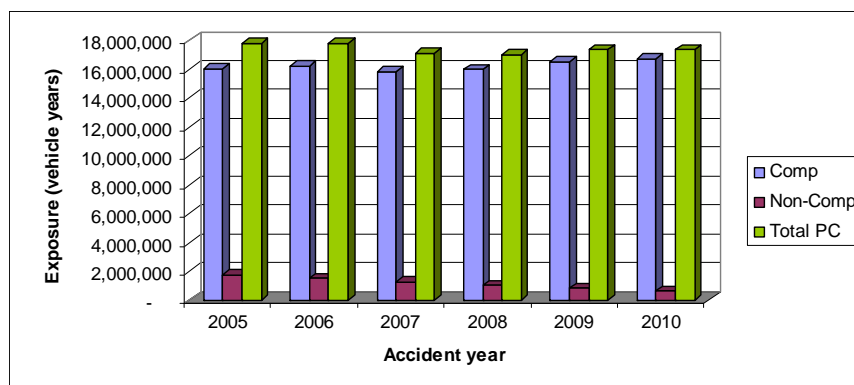
1. Raw output from Working Party, including more granular results on large claims analysis
2. Slides from Pricing Seminar



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

Comp Exposure up over time: Non-Comp declining strongly



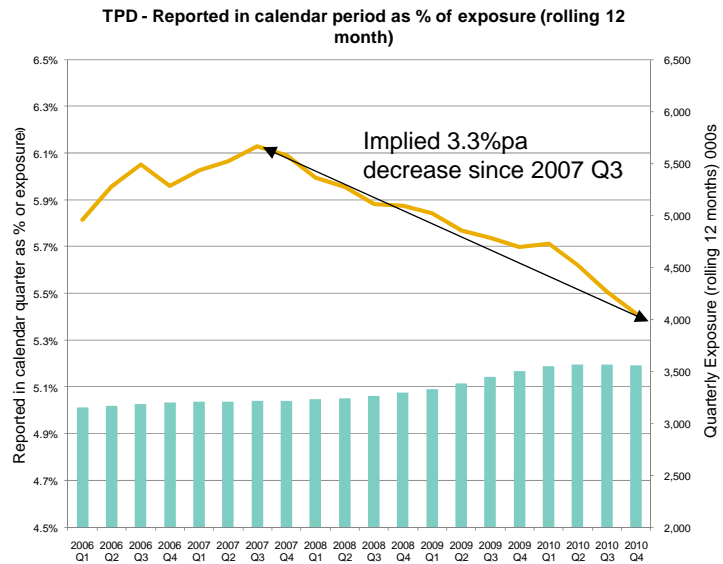
Since 2005

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

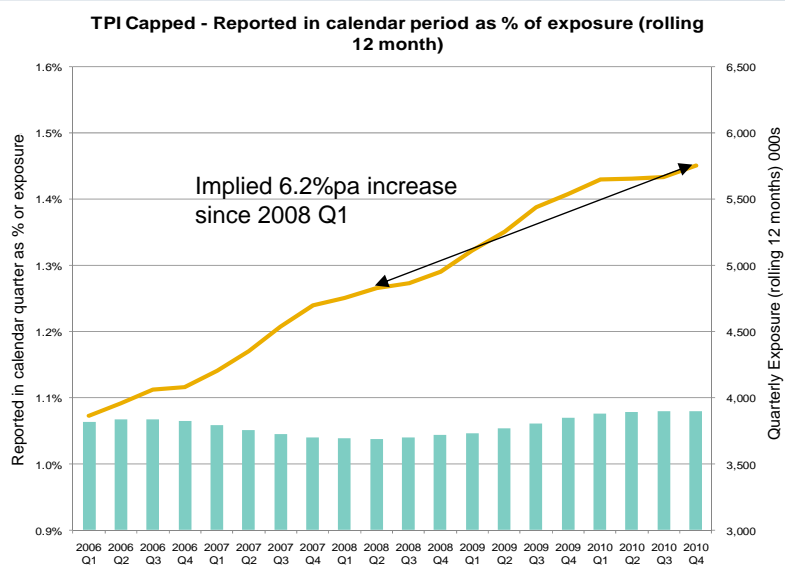
Notes on Data

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



Comprehensive



Third Party Working Party - Contents

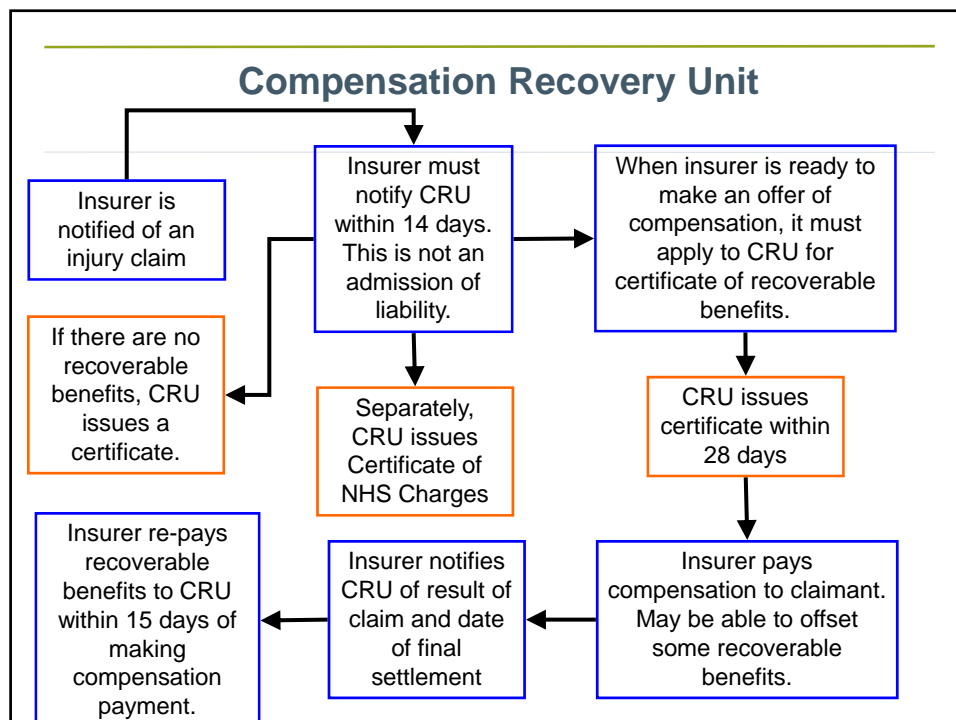
1. Scene Setting
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 - b) TPI
4. Next Steps of the Working Party

2. Key Developments since the Last Study

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

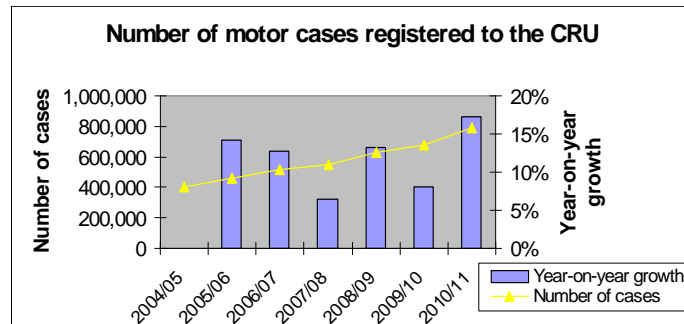
2.1 Data from the Compensation Recovery Unit

- 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.

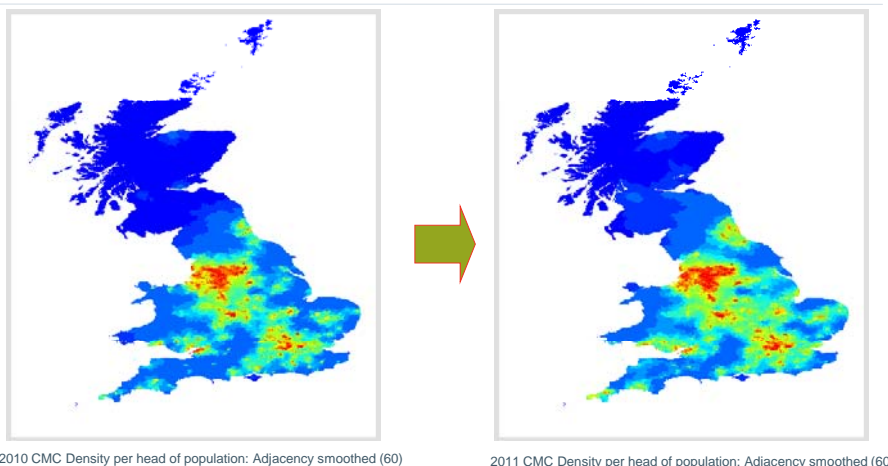


CRU Data

- 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.

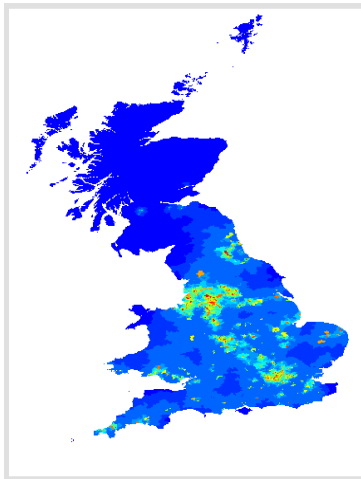


CMCs Update: bucking the general economic trend - Authorised CMCs increased by circa 20% (2600 vs 2150)



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



2010 - 2011 CMC Density per head of population: Adjacency smoothed (60)

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.

2.3 Update on Ministry of Justice Reforms

- Came into effect 30th 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

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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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Taken from MOJ press release, 30 March 2011

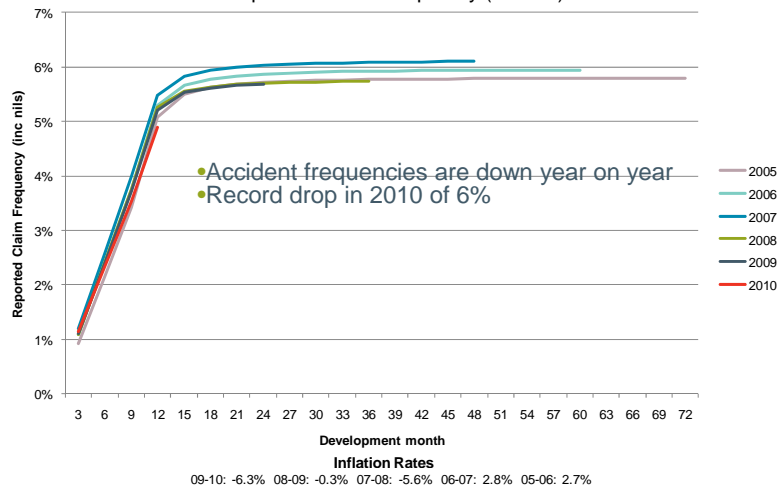
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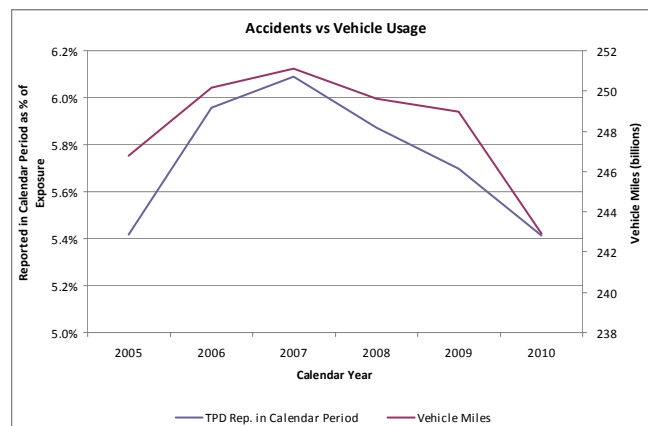
2010 Statistic

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



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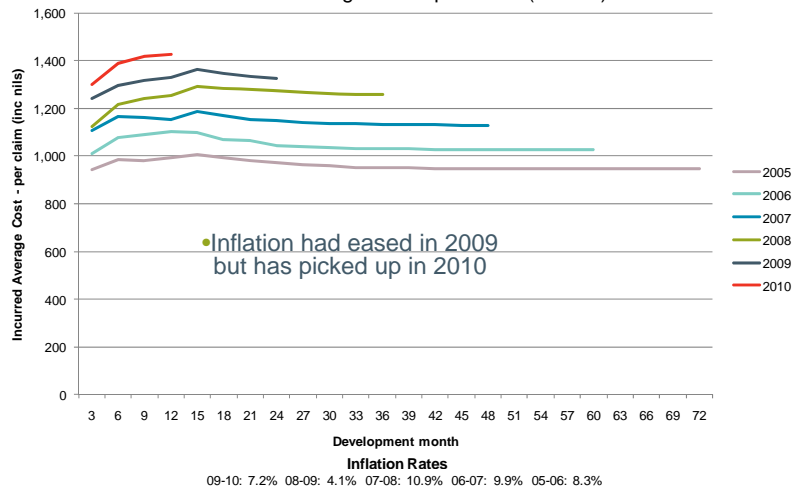
Unsurprisingly there is a clear relationship between road usage and the number of accidents



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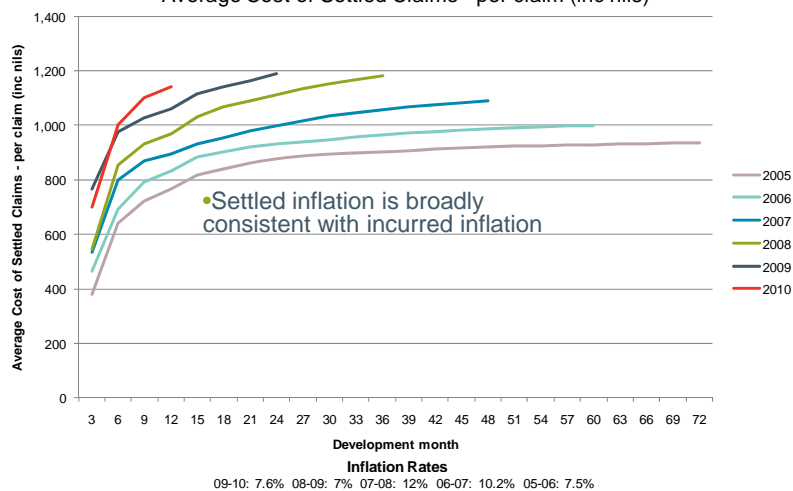
2010 Statistic

Private Car Comp - All Distribution Channels - TPD Incurred Average Cost - per claim (inc nils)



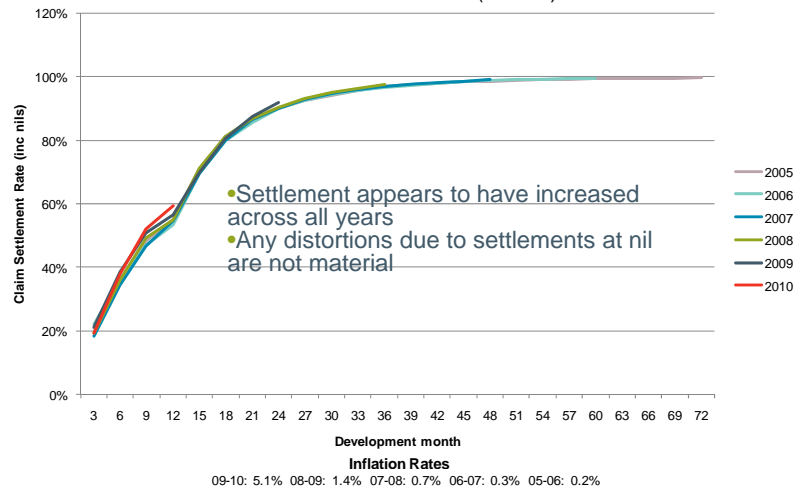
2010 Statistic

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



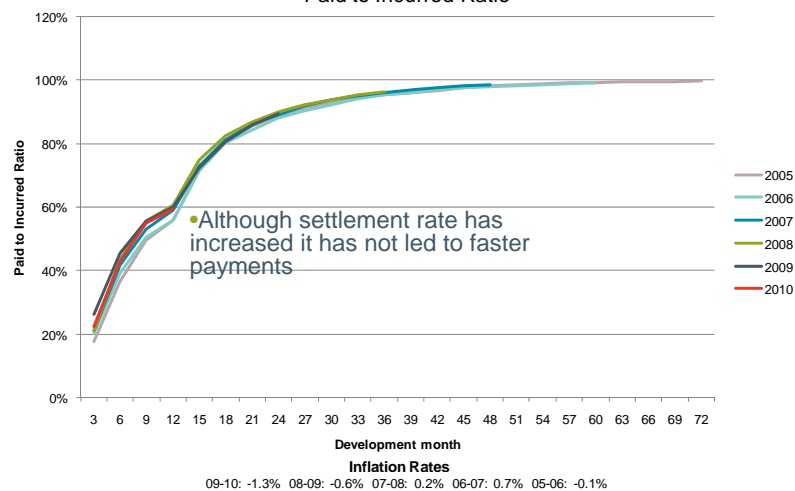
2010 Statistic

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



2010 Statistic:

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

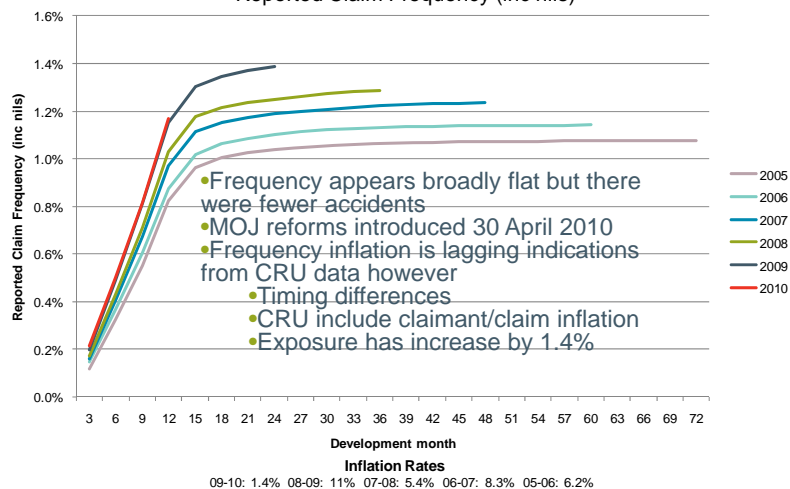


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2010 Statistic

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

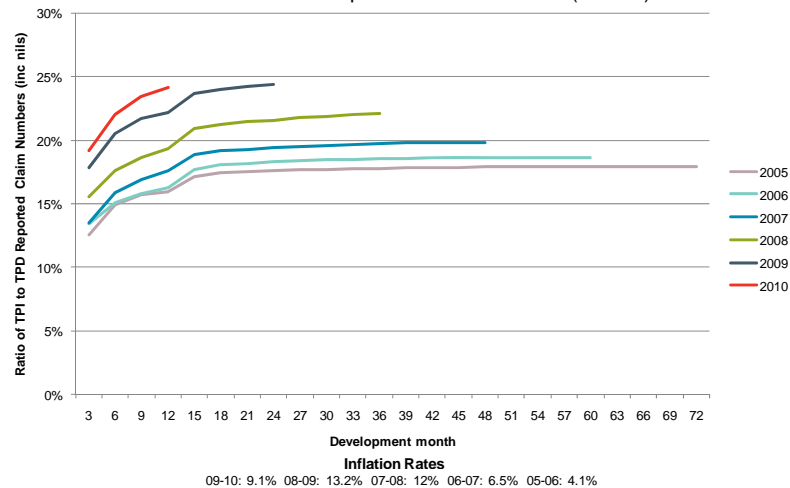


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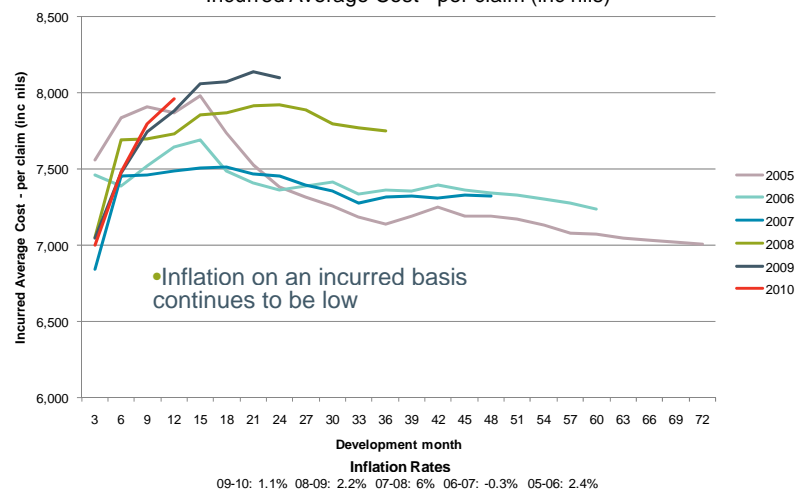
2010 Statistic

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



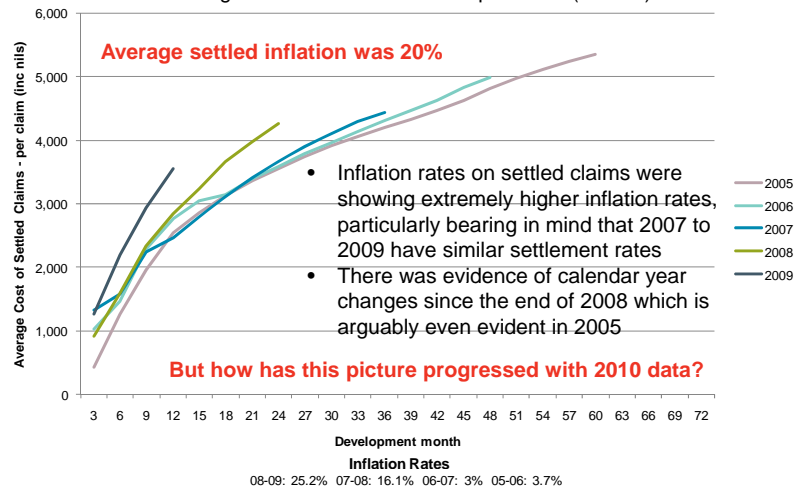
2010 Statistic

Private Car Comp - All Distribution Channels - TPI Capped Incurred Average Cost - per claim (inc nils)



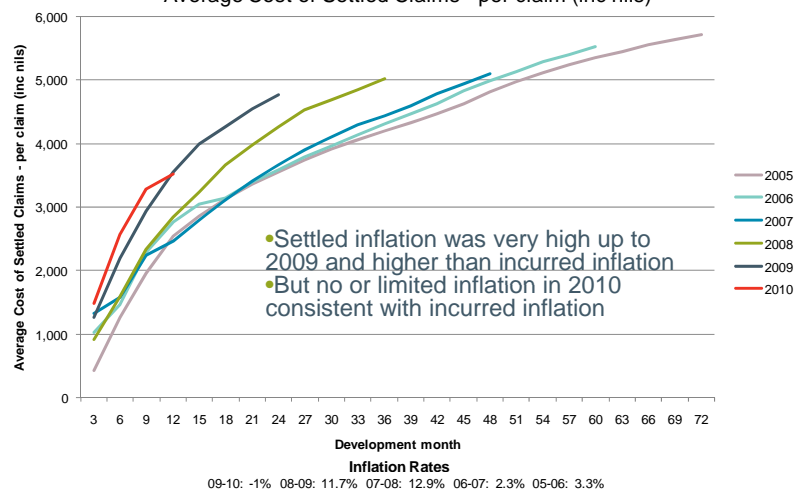
2009 Statistic (using latest data)

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



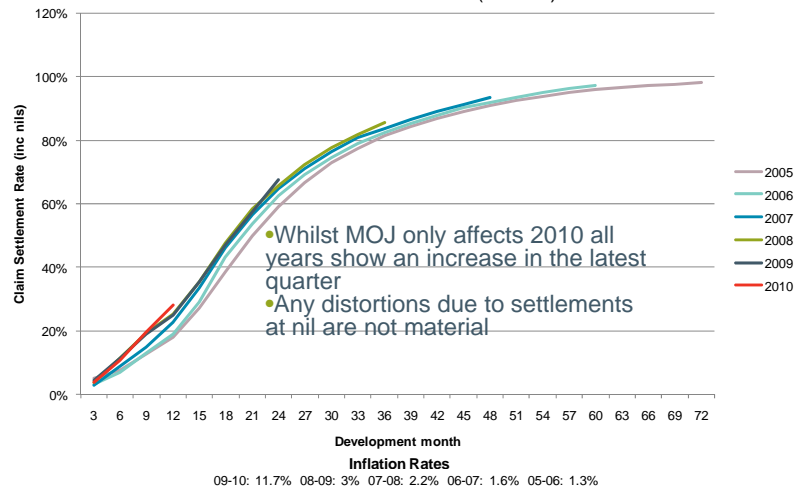
2010 Statistic

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



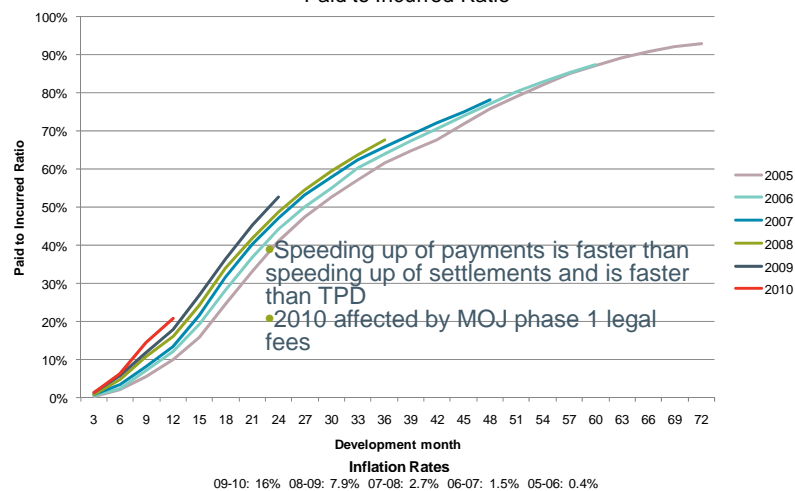
2010 Statistic

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



2010 Statistic

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

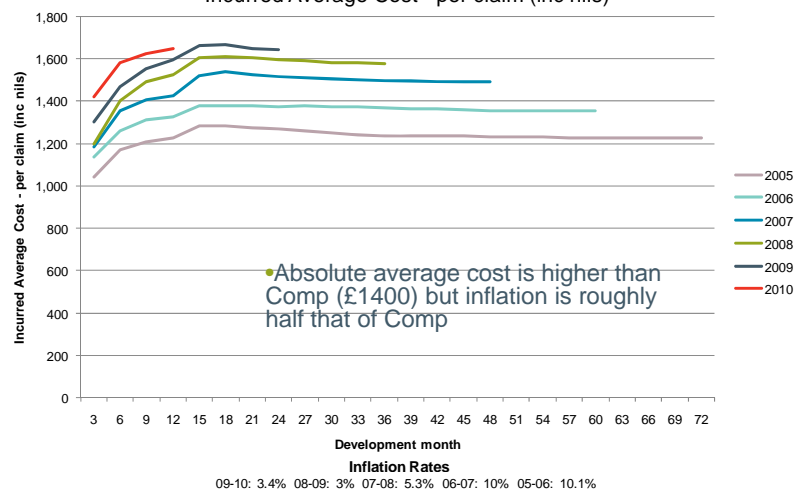


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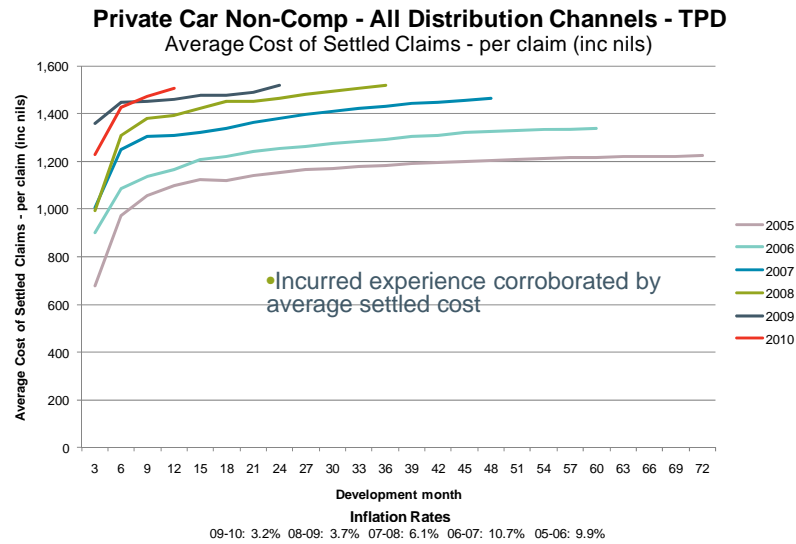
Private Car Non-Comp - All Distribution Channels - TPD
Incurred Average Cost - per claim (inc nils)



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2010 Statistic

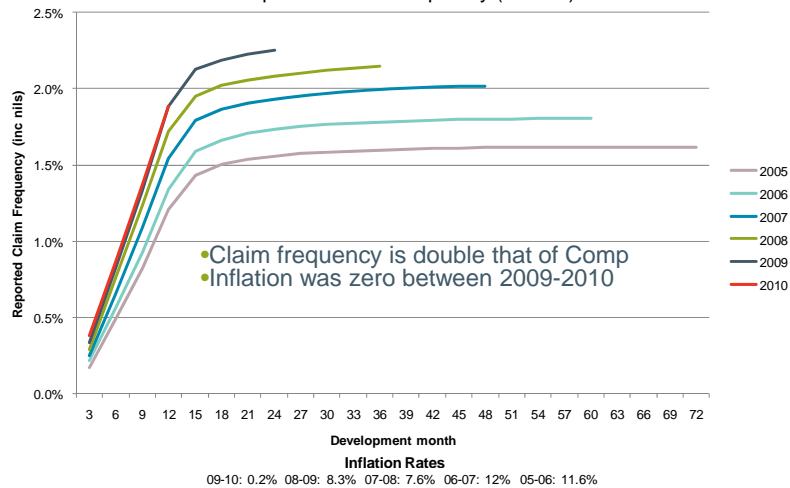


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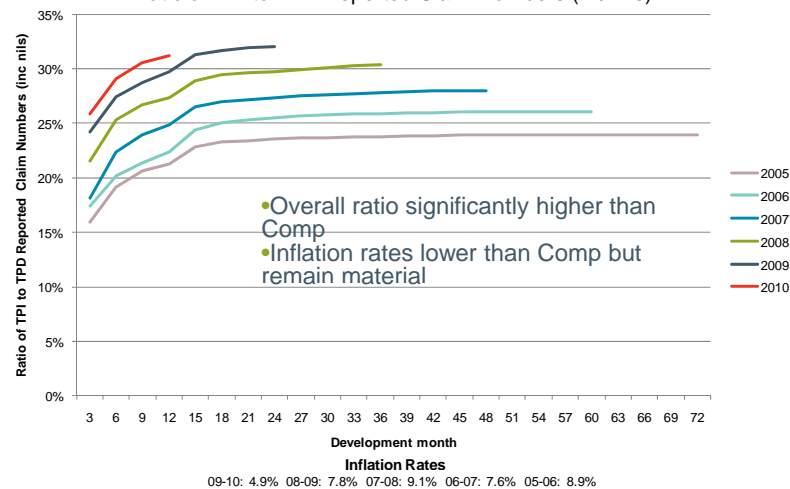
Private Car Non-Comp - All Distribution Channels - TPI Capped Reported Claim Frequency (inc nils)



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2010 Statistic

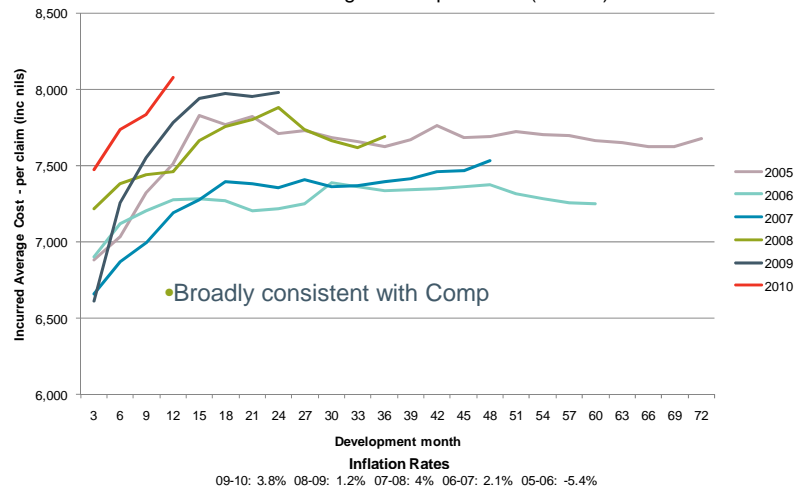
Private Car Non-Comp - All Distribution Channels Ratio of TPI to TPD Reported Claim Numbers (inc nils)



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2010 Statistic

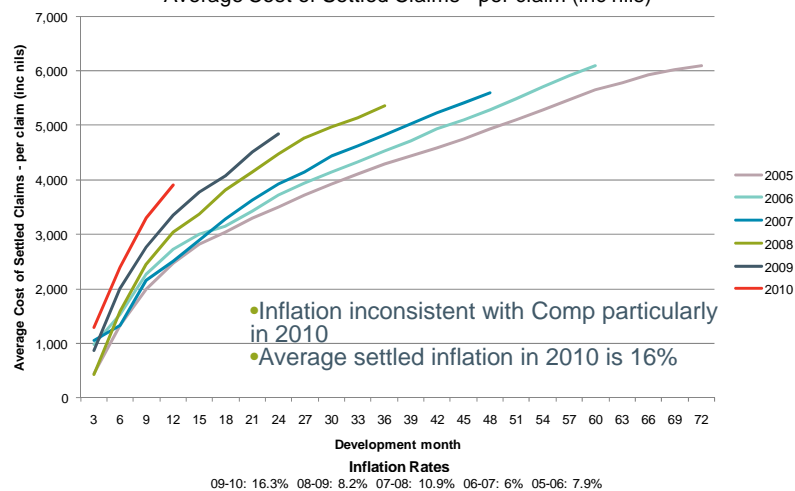
Private Car Non-Comp - All Distribution Channels - TPI Capped Incurred Average Cost - per claim (inc nils)



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2010 Statistic

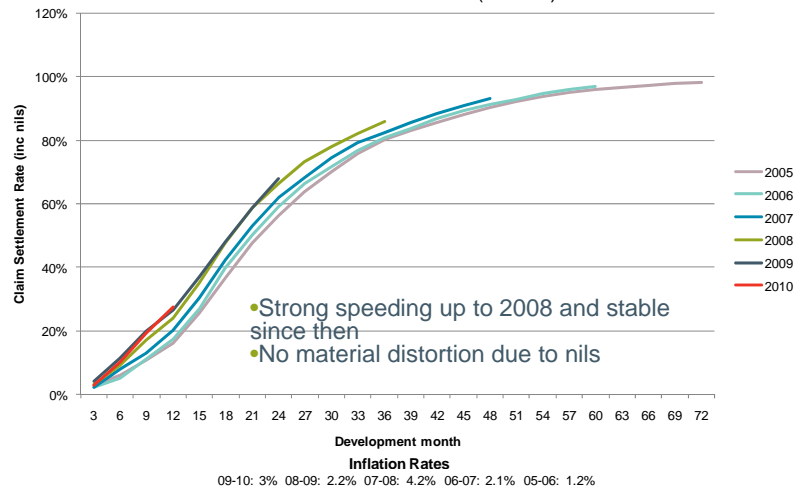
Private Car Non-Comp - All Distribution Channels - TPI Capped Average Cost of Settled Claims - per claim (inc nils)



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2010 Statistic

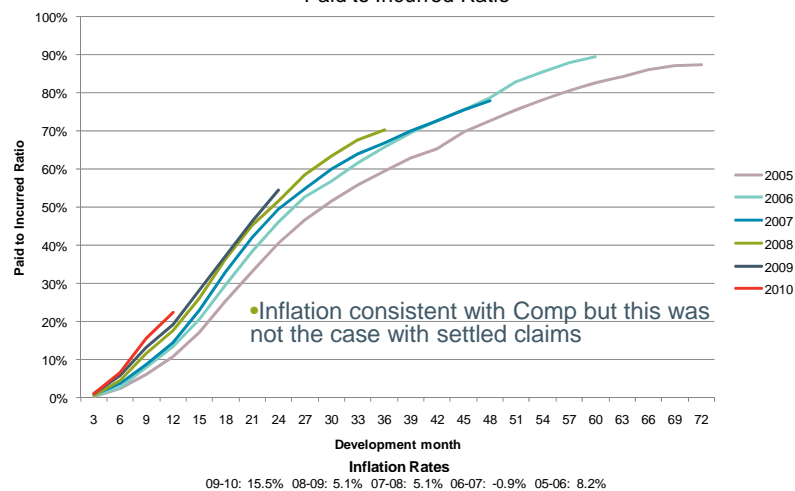
Private Car Non-Comp - All Distribution Channels - TPI Capped Claim Settlement Rate (inc nils)



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2010 Statistic

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



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