

General Insurance Convention, 14-17 October 2003, Cardiff

## **Coping with Domestic Problems- Household Help**

### **Do you know your household insurance?**

This workshop is to be presented by Cheryl Russell, Uma Baska and Susan Ley, with input from Martyn Green and Graham Oswald

### **What will this workshop cover?**

- Our views of key indicators for the household insurance industry. How do your claim development patterns compare? Are you seeing the same trends as competitors?
- A survey of UK company actuaries' views on key issues and trends in household insurance
- 2003's problem perils and how they may develop in the future
- Comparisons of the 2003 weather conditions to 1995/96 experiences. Are we going to see a big increase in subsidence claims again?
- How the use of different rating factors has changed over time
- Floods - how can insurers price for these events?
- A brief look at how CP190 will affect Household insurers

### **Quiz time!**

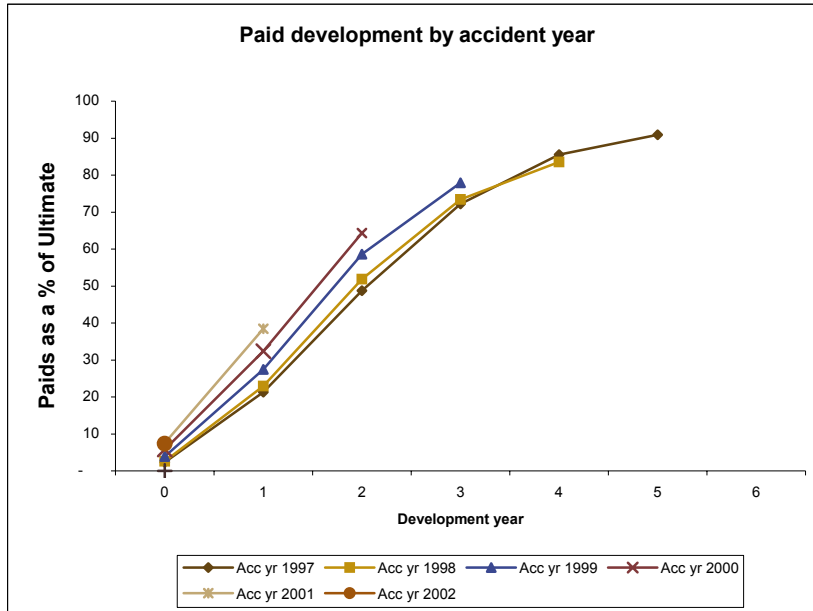
The workshop will show results of our survey on company actuaries' views of some of the following areas. Please answer the questions below and compare to the survey results.

- 1. What trends do you think the claims cost will experience over the next 3 years, compared to the last 3 years, for the following perils? (Please indicate 1, 2 or 3 for each peril below where 1 = very worrying trend, 2 = worrying trend and 3 = not so worrying trend)**

- |  |       |
|--|-------|
| a) Accidental damage                           | _____ |
| b) Escape of water through Pitch Fibre pipes   | _____ |
| c) Escape of water excluding Pitch Fibre pipes | _____ |
| d) Floods                                      | _____ |
| e) Subsidence                                  | _____ |
| f) Fire  | _____ |
| g) Public liability                            | _____ |
| h) Terrorism                                   | _____ |
| i) Other                                       | _____ |



2. (i) Can you identify which of the following perils is showing progressively faster payment patterns, as illustrated in the graph below? Please tick



(Based on PwC market data)

- |                                  |       |
|----------------------------------|-------|
| a) Theft (contents)              | _____ |
| b) Flood damage (contents)       | _____ |
| c) Subsidence (buildings)        | _____ |
| d) Accidental damage (buildings) | _____ |

(ii) Why do you think this? \_\_\_\_\_

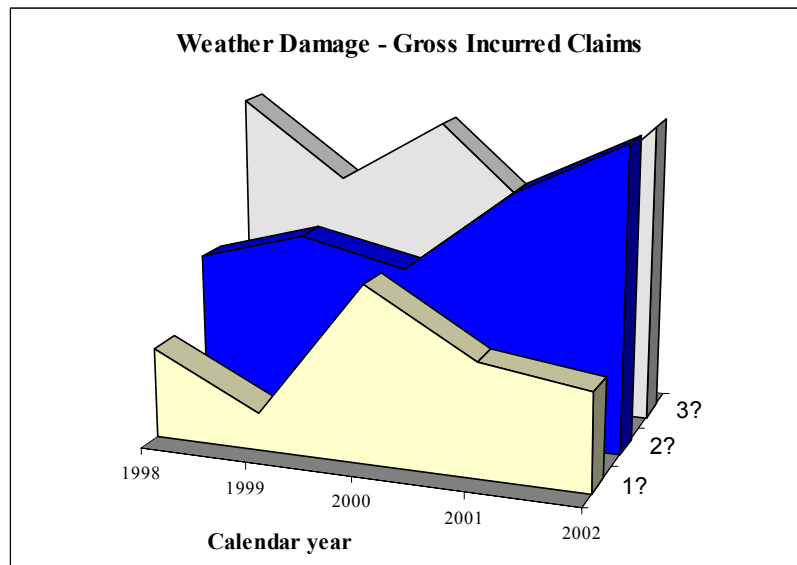
\_\_\_\_\_

\_\_\_\_\_

3. How do you think the Ultimate Loss Ratio experience (for buildings and contents combined) has changed in 2003 relative to the 2002 accident year? Please tick

- |                   |       |
|-------------------|-------|
| a) Better by 5%+  | _____ |
| b) Better by < 5% | _____ |
| c) Similar        | _____ |
| d) Worse by < 5%  | _____ |
| e) Worse by 5%+   | _____ |

4. Can you identify which segment of the chart (1,2 or 3) relates to trends in gross incurred claims of the following weather types? Please indicate 1, 2 or 3 for each weather type



(ABI Stats)

- a) Storms \_\_\_\_\_
- b) Floods \_\_\_\_\_
- c) Burst pipes/escape of water \_\_\_\_\_

5. The planting of which of the following trees near the home is most likely to give rise to subsidence problems? Please tick

- a) Palm tree \_\_\_\_\_
- b) Oak \_\_\_\_\_
- c) Willow \_\_\_\_\_
- d) Hedge- Lleylandii \_\_\_\_\_

6. What do you expect the 2003 figure for claims inflation of average cost per claim for contents insurance to be? Please tick

- a) Below 2% \_\_\_\_\_
- b) 2-3.9% \_\_\_\_\_
- c) 4-5.9% \_\_\_\_\_
- d) 6-7.9% \_\_\_\_\_
- e) 8% and above \_\_\_\_\_

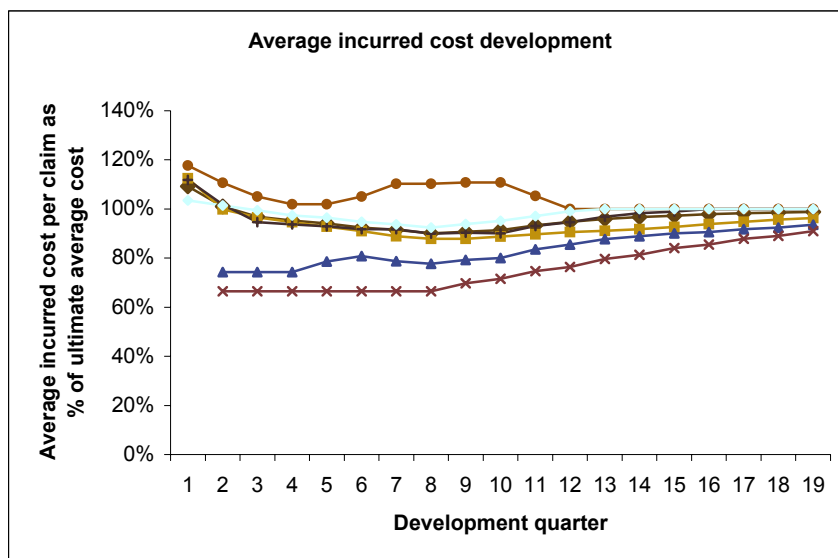
7. What do you expect the 2003 figure for claims inflation of average cost per claim for buildings insurance to be? Please tick

- a) Below 2% \_\_\_\_\_
- b) 2-3.9% \_\_\_\_\_
- c) 4-5.9% \_\_\_\_\_
- d) 6-7.9% \_\_\_\_\_
- e) 8% and above \_\_\_\_\_

8. Which of the following claims are generally covered by a Householder's Building and Contents policy? Please tick

- a) Mould claims caused by damp weather conditions \_\_\_\_\_
- b) Injury to house guest caused by collapse of a shelf \_\_\_\_\_
- c) Loss of wallet while travelling to work \_\_\_\_\_
- d) Liability if a cyclist knocks over a pedestrian \_\_\_\_\_
- e) Horses escaping from a field and causing a car accident \_\_\_\_\_
- f) A home owner accidentally driving his car into his house \_\_\_\_\_
- g) Damage to kitchen floor due to a flooding washing machine \_\_\_\_\_

9. The graph below shows the development of average cost per claim (each line represents a different insurer/ policy type experience). Which peril do you think this is? Please tick



(Based on PwC market data)

- a) Theft \_\_\_\_\_
- b) Flood damage \_\_\_\_\_
- c) Subsidence \_\_\_\_\_
- d) Fire \_\_\_\_\_

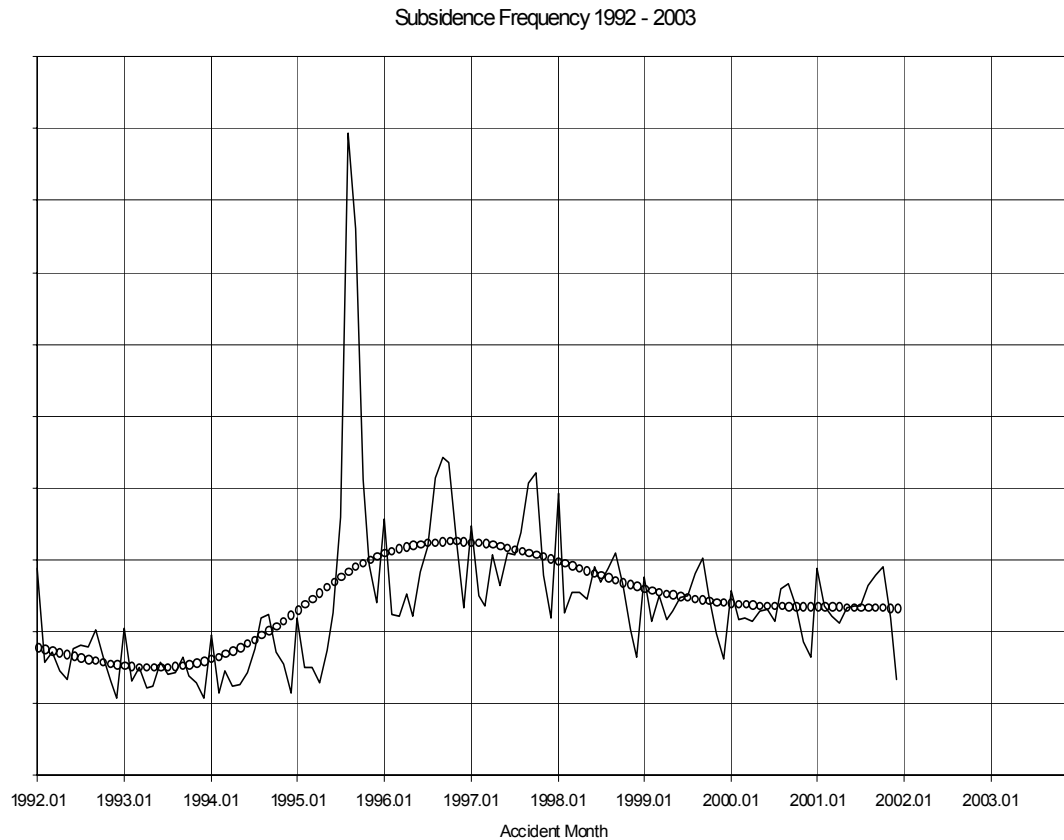
10. For contents insurance, if you had the choice of using only 6 rating factors, which would you choose? Please tick 6 rating factors

- |  |   |
|--|---|
| <input type="checkbox"/> Sum insured                                       | <input type="checkbox"/> Type of locks  |
| <input type="checkbox"/> Number of rooms                                   | <input type="checkbox"/> Alarm fitted (burglar and smoke)                       |
| <input type="checkbox"/> Post sector                                       | <input type="checkbox"/> Dog ownership  |
| <input type="checkbox"/> Past experience or NCD                            | <input type="checkbox"/> Voluntary excess                                       |
| <input type="checkbox"/> Business use                                      | <input type="checkbox"/> Smoker   |
| <input type="checkbox"/> Occupancy during the day                          | <input type="checkbox"/> Accidental damage (add-on)                             |
| <input type="checkbox"/> Owner status (e.g. landlord, tenant)              | <input type="checkbox"/> Heating type   |
| <input type="checkbox"/> Cross cover (buildings or contents cover or both) | <input type="checkbox"/> Age of policyholder                                    |
| <input type="checkbox"/> Building type (e.g. terrace or bungalow)          | <input type="checkbox"/> Height above sea level                                 |
| <input type="checkbox"/> Year of construction                              | <input type="checkbox"/> DEFRA/EA database (flood defence level by post sector) |

11. For buildings insurance, which of the following four rating factors do you think will prove least useful? Please tick

- |   |       |
|---|-------|
| a) Voluntary excess   | _____ |
| b) DEFRA flood defence information  | _____ |
| c) Building type  | _____ |
| d) Cross cover (is the person seeking buildings and contents cover or just buildings cover) | _____ |

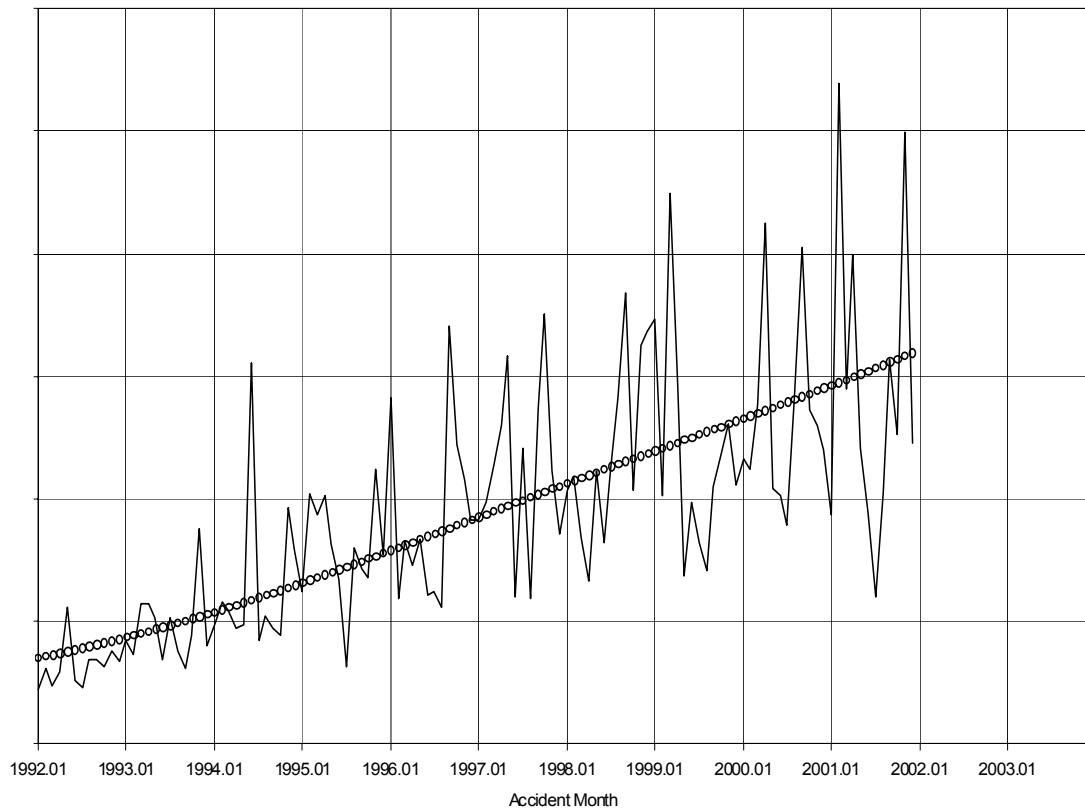
12. How has the claim frequency of subsidence claims moved in 2002 and how do you foresee it to move over 2003? Please draw



(Based on a subset of Norwich Union data. As shown in the 2002 *GIRO* Household Working Party paper)

13. How has the average size of fire claims moved in 2002 and how do you foresee it to move over 2003? Please draw

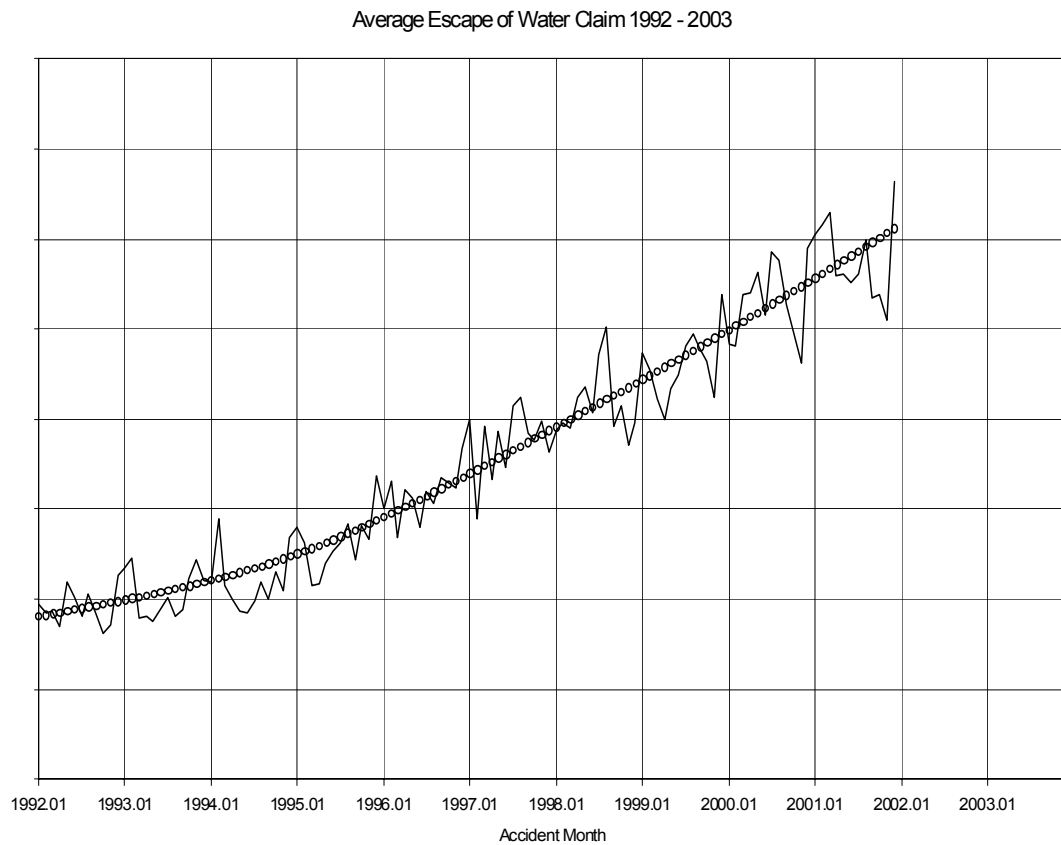
Average Fire Claim 1992 - 2003



(Based on a subset of Norwich Union data. As shown in the 2002 GIRO Household Working Party paper)



14. How has the average size of escape of water damage claims moved in 2002 and how do you foresee it to move over 2003? Please draw



(Based on a subset of Norwich Union data. As shown in the 2002 *GIRO* Household Working Party paper)

15. Which of the following comments have insurers not been quoted to say about Flood coverage in 2003? Please tick

- a) "We are not looking to provide cover for new customers in known flood risk areas." \_\_\_\_\_
- b) "We do not automatically refuse cover in any area of the country." \_\_\_\_\_
- c) "Our aim is to quote extremely competitively in all areas - even those regarded as higher risk." \_\_\_\_\_
- d) "In really exceptional circumstances, a premium loading of around 30% may also be applied." \_\_\_\_\_
- e) "I can say for clarification that we will, in all likelihood, be reviewing terms and premiums for existing customers in areas high in risk of flooding." \_\_\_\_\_
- f) "The industry message here is really to stick with your current insurer who should be able to provide you with renewal terms post 1 Jan 2003." \_\_\_\_\_

16. (i) Approximately how many "flood events" were recorded in Europe in the period 1993-2002, relative to the number recorded in the previous ten years? Please tick

- a) The same number \_\_\_\_\_
- b) Twice as many \_\_\_\_\_
- c) Three times as many \_\_\_\_\_
- d) Five times as many \_\_\_\_\_

(ii) How do you think this figure will change in the next ten years? Please tick

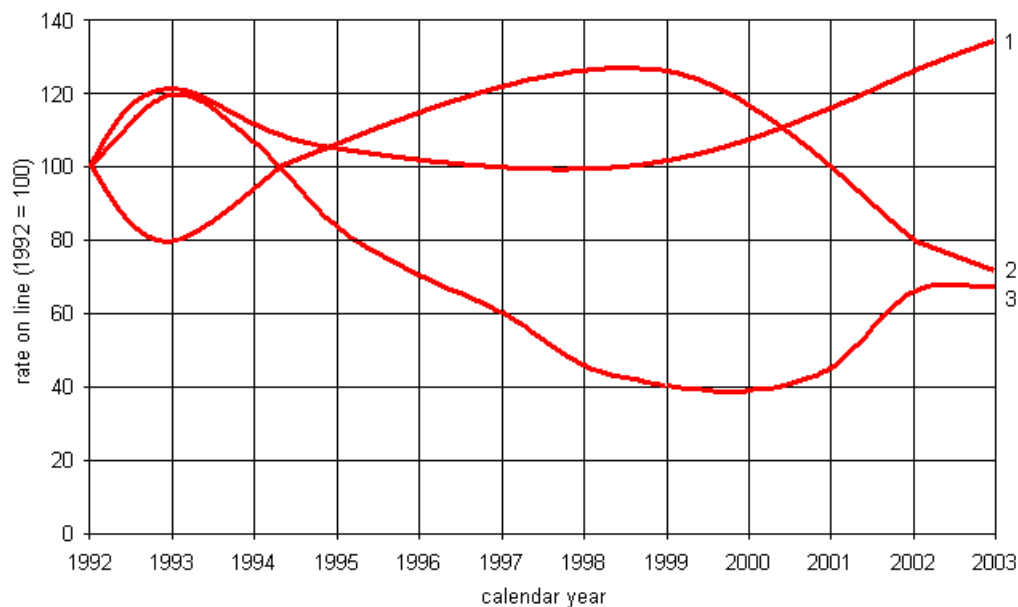
- a) Increase \_\_\_\_\_
- b) Decrease \_\_\_\_\_
- c) Stay the same \_\_\_\_\_

(iii) If applicable, how are you reflecting this in premium rating? Please specify

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17. This graph plots trends in the cost of catastrophe reinsurance cover for the UK property market over recent calendar years. 2003 purchasing patterns are used to calculate the price that would have been paid each year since 1992 for the same cover. The price was then indexed to 1992 values.



(Courtesy of Benfield Grieg)

Which of the three trend lines do you believe plots the true picture? Please tick

- a) 1 \_\_\_\_\_  
b) 2 \_\_\_\_\_  
c) 3 \_\_\_\_\_

18. How great an impact will the forthcoming changes relating to statutory capital requirements be on insurance company business strategy?

(i) The transition from current regulations on capital requirements to the Solvency I standard Please tick

- a) No impact \_\_\_\_\_  
b) Little impact \_\_\_\_\_  
c) Big impact \_\_\_\_\_

(ii) The proposed transition from the Solvency I standard to the Enhanced Capital Requirements (as set out in CP190) Please tick

- a) No impact \_\_\_\_\_
- b) Little impact \_\_\_\_\_
- c) Big impact \_\_\_\_\_

19. (i) Do insurers think the new regulations relating to statutory capital requirements will lead to a change in: (Please answer Y/N)

- a) The level of personal lines insurance written by insurers \_\_\_\_\_
- b) The asset allocation of personal lines insurers \_\_\_\_\_

(ii) If so, what changes do you foresee for each of these? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

**Are you a typical Actuary?**

*What type of actuary are you? Complete the questions above and come to the workshop to find out how your answers compare to other market players!*