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Update from the Third Party Working Party

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Third Party Working Party

- Fourth iteration of the Institute and Faculty of Actuaries Third Party Working Party (TPWP), which investigates third party motor claims (injury and property damage)
- Scope now includes private car comprehensive (PCC) and commercial motor business
- Greater volumes of data than ever before:
 - Data representing earned premium for accident year 2012 of:
 - £9.1 billion for private car comprehensive
 - £1.6 billion for commercial vehicle fleet
 - £1.2 billion for commercial vehicle non-fleet
 - An increase in the number of contributors since last year



Acknowledgements

Working Party:

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Market statistics

Notes on data

- The collection of contributing insurers has changed materially over the years. Relative to last year's study this year's includes one new insurer contributor; additional data from some contributors (generally relating to more accounts); and, in some cases, less data from other contributors.
- In addition, each year it is common for a number of insurers to make relatively subtle changes to their definitions of claim statistics. In the aggregate, these lead to distortions when comparing the market studies between different years.
- Not all contributors are able to supply data to support every claim statistic in each study. There are generally improvements (but not always) in the availability of data from year to year, and as such, the results of the most recent study will be based upon data from an increased proportion of the contributor companies (and not just new contributors). Again, this introduces a material distortion into any analysis which attempts to compare the results across different studies.
- Related to the above two points, the TPWP notes that, with regards to the consistency of claim statistic definitions, the data received for this year was generally of higher quality than has been the case in previous reviews.
- It is reasonably common for insurers to restate the claims statistics of prior accident years (and prior periods of development), particularly in the case where portfolios (including movements on prior year liabilities) have been acquired or disposed of by the contributor(s) in question. Other reasons for such changes can be changes in the availability of granular data pertaining to (potentially large) segments of portfolios (such as in the case where data is provided by bordereaux rather than being integrated in insurer administration systems) or in some cases changes in the mapping of data to classes.
- For this reason, we would recommend that if the user of the research wishes to understand how trends have evolved over time, then they should focus on looking at trends by accident year within the latest study, rather than attempting to compare the results across studies.
- Likewise we do not consider statistically valid any back engineering of individual contributors' contributions.



Market statistics

Notes on data

- Third party injury (TPI) claims have been “capped” at £50,000 (for accidents in 1999, indexed at 7% per annum for other accident years) to remove the distorting effect of very large claims.
- Annual percentage changes quoted in the charts give the latest position of the relevant accident year divided by the equivalent position of the previous year (for example, the 2012 accident year position as at 31 December 2012 divided by the 2011 accident year position as at 31 December 2011).
- The annual percentage changes could be distorted by shifts in development pattern and hence the ‘ultimate’ inflation rates could be different from presented.
- Because not every contributor provided every data item, not every chart and statistic in this analysis is based upon data from the same set of contributors. This can result in minor inconsistencies between charts.





- 1. Scene Setting**
- 2. Market Statistics: TPD**
- 3. Market Statistics: TPI**
- 4. Conclusions**

Scene Setting

Summary

- Motor environment is evolving fast: but with tailwinds as well as headwinds from **insurer** perspective:
 - Gender Directive
 - Solvency II
 - Low investment returns
 - Fuel prices and the cost of motoring
 - Market premium increases unwinding ⁽¹⁾
 - But still CORs above 100%
 - PPOs and review of Ogden discount rate
 - MoJ – extension of process, review of fees
 - LASPO Act
 - Whiplash consultation, increase to SCT
 - OFT enquiry on credit hire / repair
 - Simmons v Castle – general damages up 10%
- FSA returns for 2012 show a net COR of 105% and a loss ratio of 76% for 2012. ⁽²⁾
- Our study covers the cost of third party claims, which make up 70% of motor insurance claims costs – the OFT figures cite 50% for TPI, 20% for TPD. ⁽³⁾
- TPWP therefore focuses on the most material and analytically problematic areas of cost, in order to provide information to help actuaries, consumers, regulators and companies make informed decisions.

Sources

1. Confused.com/TW Insurance Price Index shows PCC rates dropped by 9.8% in 12 months to end March 2013
2. Deloitte Analysis of AM Best data
3. http://www.oft.gov.uk/shared_of/market-studies/private-motor-insurance/Motor_Insurance.pdf

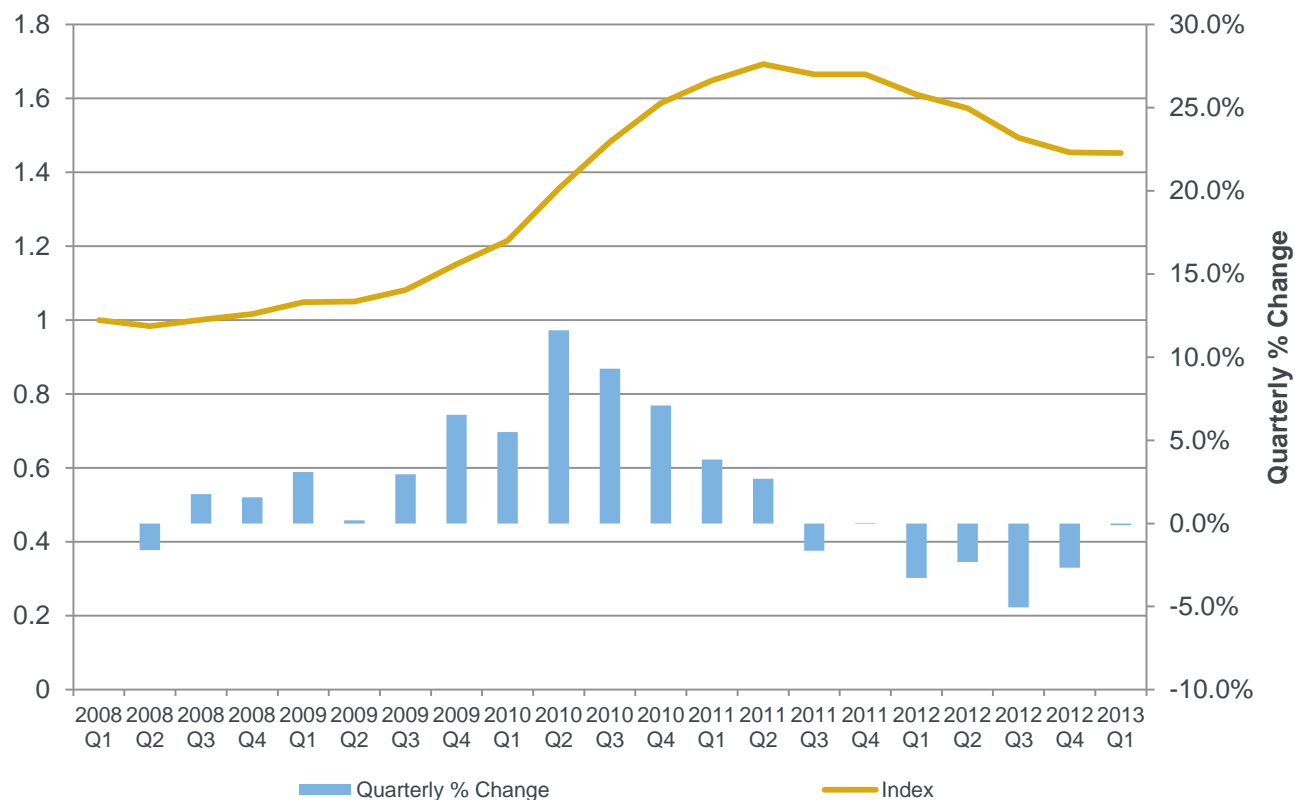


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Scene Setting

Motor Premium Rate Movements

Confused.com/TW Car Insurance Index



- The Confused.com/Towers Watson index shows that PCC premiums began to fall at the end of 2011 and fell for each quarter in 2012.
- Premium levels have remained unchanged in the first quarter of 2013.
- Premiums are 9.8% lower at the end of 2013 Q1 than a year earlier.



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Scene Setting

Legislative Developments

1 April 2013 – Notification basis

Referral fee ban

Non-recoverability of ATE premiums and success fees from defendants

10% increase in general damages

31 July 2013 – Accident basis

Extension of Portal to include RTA claims up to £25,000 and EL/PL claims

Fixed recoverable costs within the RTA portal for claims between £10k and £25k:

£200 for Stage 1

£600 for Stage 2

30 April 2013 – Notification basis

Reduction of fixed recoverable costs within the RTA portal (claims from £1k to £10k):

From £400 to £200 for Stage 1

From £800 to £300 for Stage 2

Payment of Stage 1 portal fee pushed back until receipt of Stage 2 settlement pack - less scope for the “£400 club”

Awaiting results of consultation

Independent medical panels for diagnosis

Allowing more whiplash claims to be challenged in the small claims court

Ogden

OFT referral to Competition Commission

Whiplash Inquiry

Summary of 2012's Findings (June 2012)

Conclusions for 2011 accident year

TPD

- A dramatic **11% drop** in TPD frequency in 2011 but the highest level of average cost inflation since 2006
- Slowing down in TPD settlement and increase in case estimate strength / size

Capped TPI

- Huge increase in the percentage of TP accidents with TPI
- Frequency is **up by 5%** despite an 11% drop in TP accidents, with TPI/TPD inflation at 18%
- Capped TPI inflation appears to have reverted back to average levels observed from 2008 with an **increase of (6-9%)** in 2011 relative to 2010
- The inflation of both TPI/TPD and incurred severity in 2010 is lower than in adjacent periods. 2010. However, 2011 is showing a catch up with 2 years inflation in one supporting the view that 2010 experience is anomalous
- Any increases or decreases in TPD frequency flow through to TPI inflation. Norming to zero TPD frequency inflation (-11% in 2011), the data supports a trended view of TPI burn cost inflation in excess of 15% **unless one believes that the lower settlement cost inflation will continue.**



Summary of 2012's Findings (September 2012)

Questions and Provisional Answers

	Questions	Our Provisional Answers
a.	What is small TPI inflation?	<ul style="list-style-type: none"> • Burning cost inflation has increased slightly since 2008, now sitting at 15%. Greater numbers of claims between £20k & £50k have been the greatest contributor to recent higher inflation. If future TPD frequencies do not drop, prospective burn cost inflation could be > 20%.
b.	2011 – catch up or new trend?	<ul style="list-style-type: none"> • Catch Up from 2010 experience driven by <ol style="list-style-type: none"> Anomalous weather in 2010 MOJ changes disrupting CMCs? • These support 2011 being a catch-up • Relatively, 2010 should not develop adversely based on i; but ii could bring (diminishing) risk of “back-farming.”
c.	What do we know about multi-claimant claims?	<ul style="list-style-type: none"> • Data supports average claimants per claim of c. 1.4, assuming £10k-£20k layer is dominated by multi-claimant claims.
d.	How weak/strong are case estimates?	<ul style="list-style-type: none"> • Case estimates were identified as weak in our 09/10 work; they have strengthened but are still a concern.
e.	What's changed post MOJ?	<ul style="list-style-type: none"> • Simple whiplash claims settling faster; inflation continues. Adverse operational impact on large claims now diminishing.

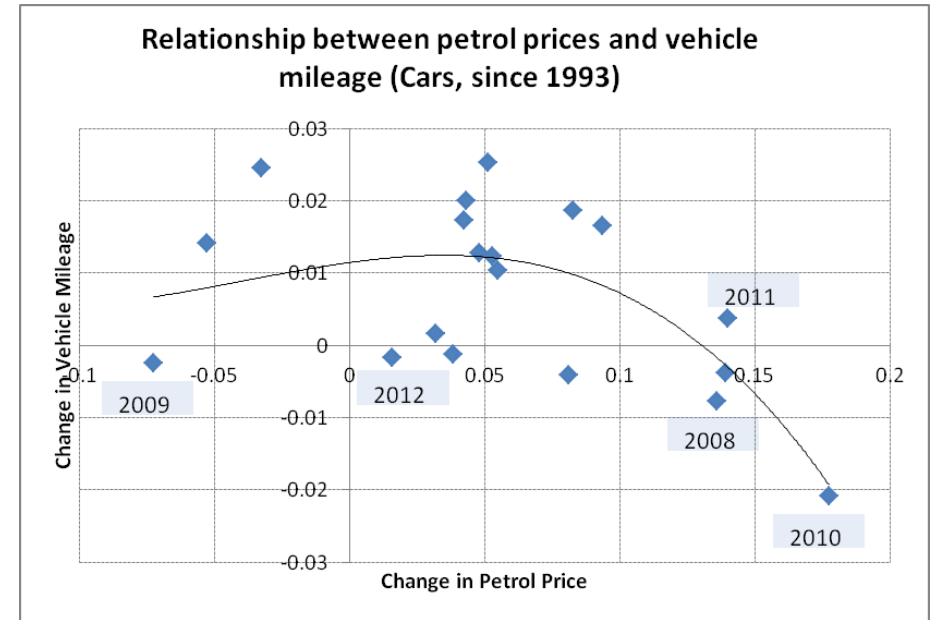
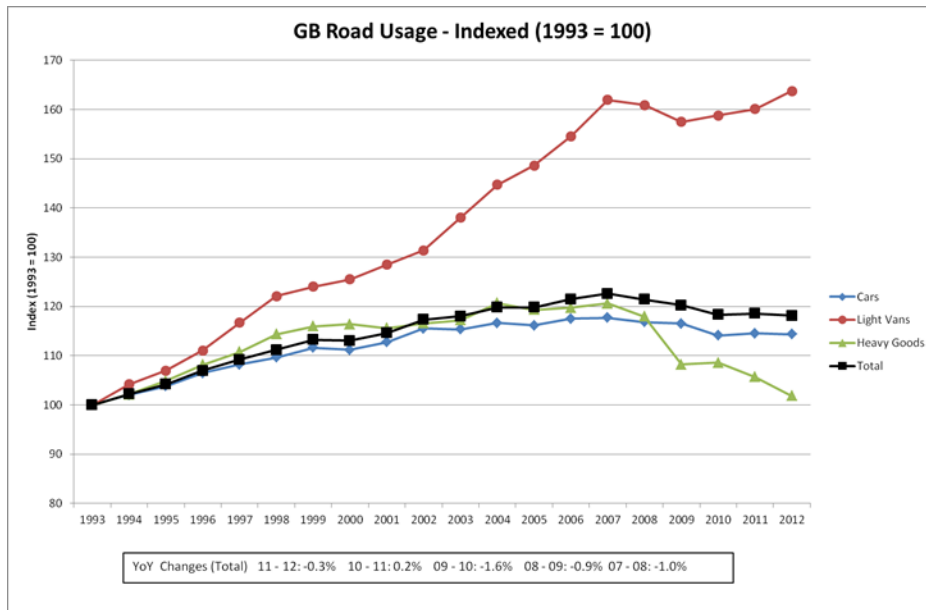


1. Scene Setting
2. Market Statistics: TPD
3. Market Statistics: TPI
4. Conclusions

Market Statistics

Road Usage Data

- There is a broad correlation between road usage and changes in petrol prices – with greater sensitivity to increases than decreases
- It is possible that the impact of price increases is greater during recessionary years
- The most recent 5 years include 3 with significant price increases and 4 with mileage decreases



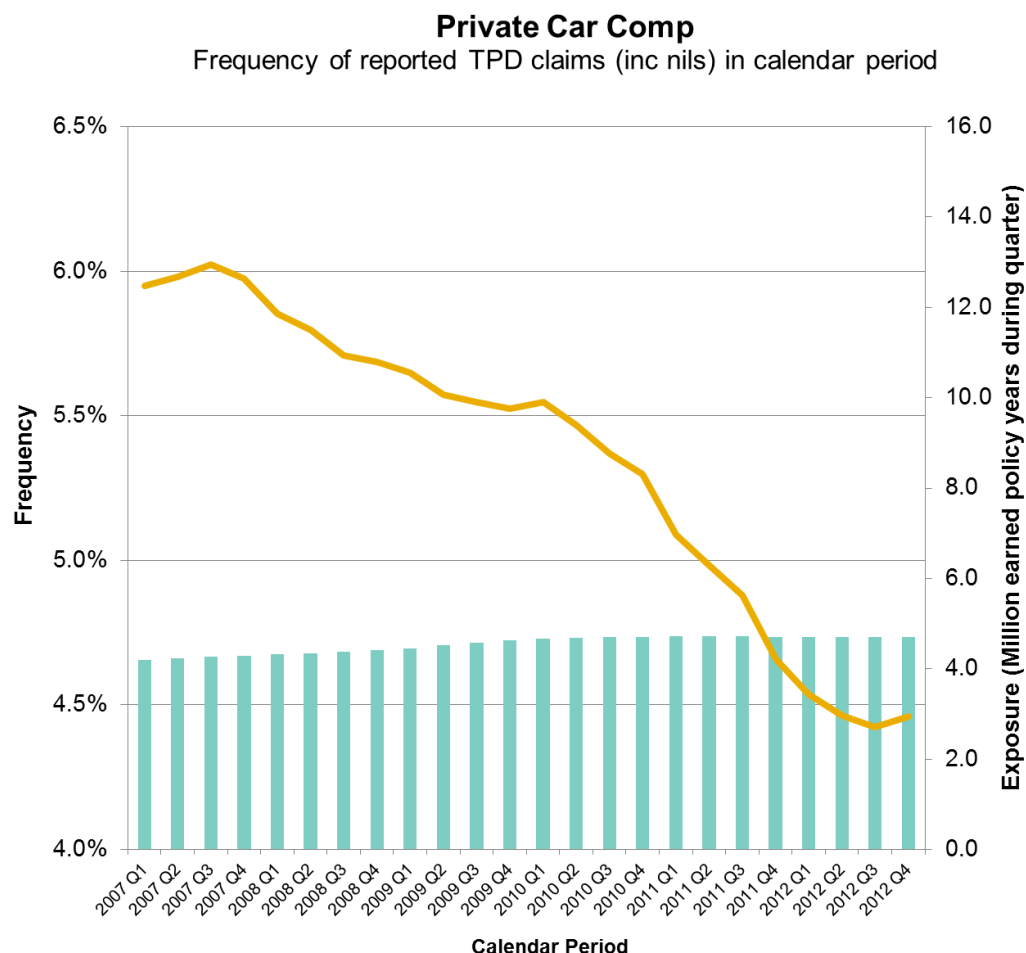
- Road usage dropped between 2007 and 2010
- With a more pronounced drop in 2010 of 1.6%
- Broadly unchanged since 2010 for Cars.
- HGV mileage continues to drop. 2012 is 15% down from 2007 peak.
- Offset by increases in Light Vans.



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Market statistics

Reported TPD Claims by calendar period



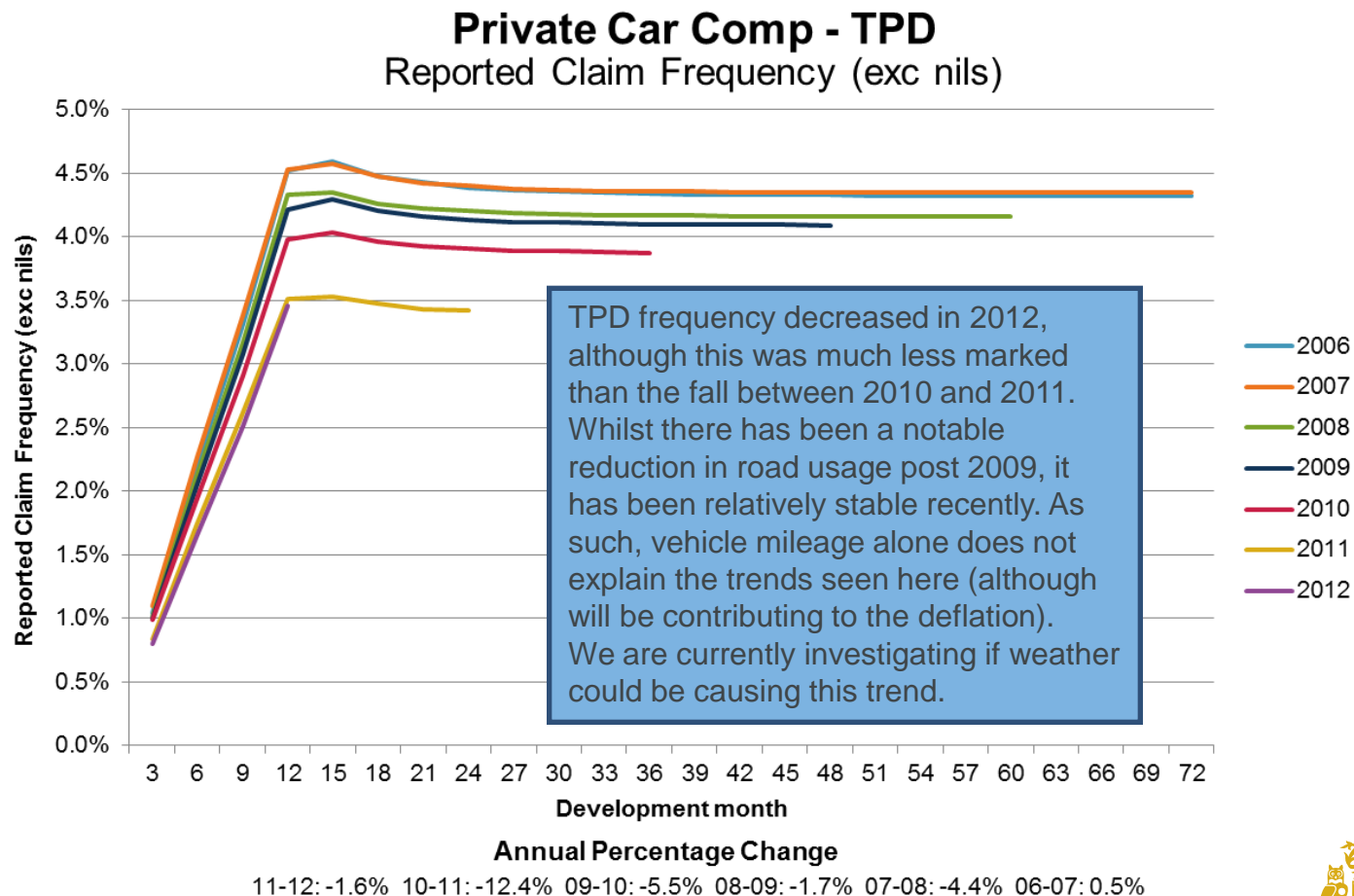
- Reported TPD frequency shows considerable decreases over recent years, particularly in 2010 and 2011.
- While the frequency has fallen further in 2012 the rate of reduction has slowed.
- Reported frequency has increased in 2012 Q4 which could suggest that the reductions in TPD frequency will not continue into 2013.



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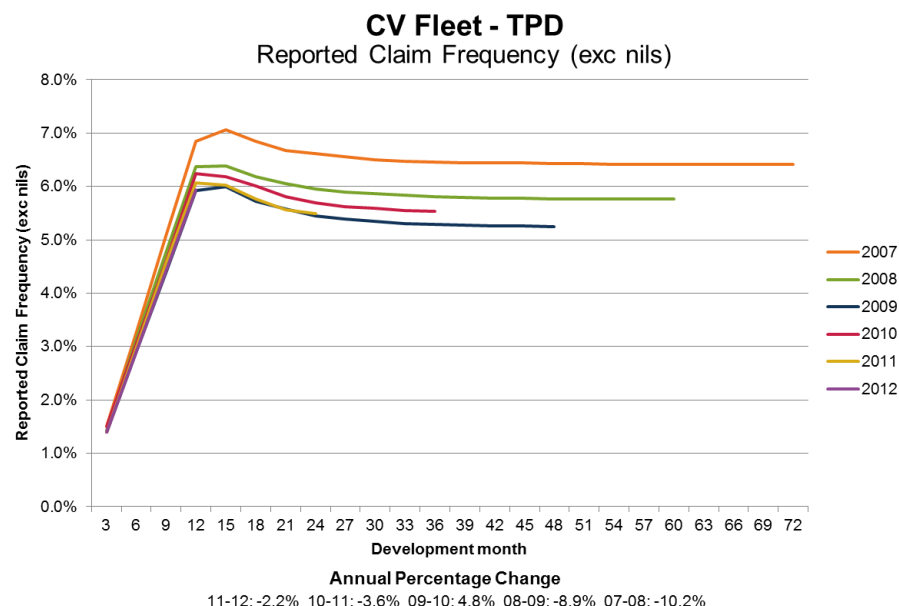
Claim frequency (excluding nils)



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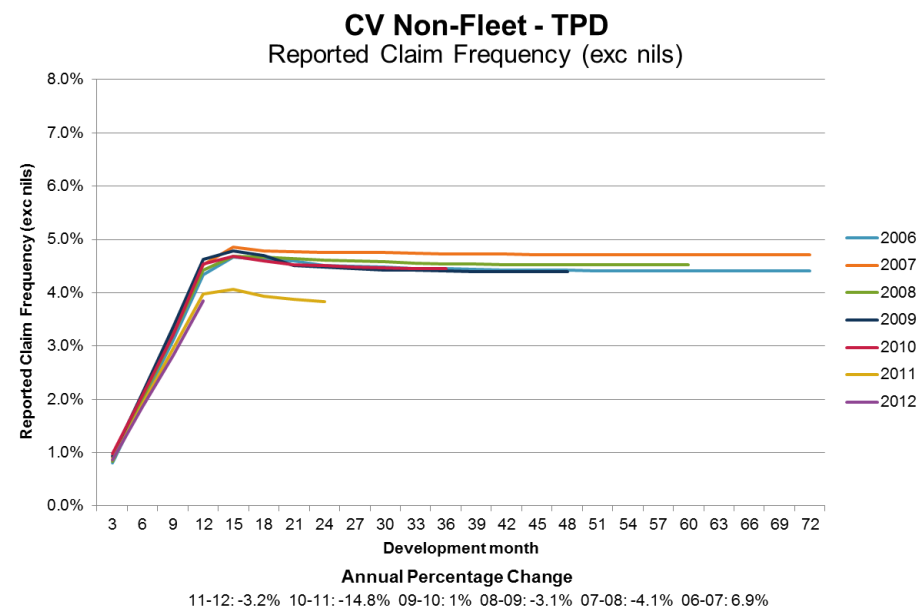
Market statistics

Claim frequency (excluding nils)



Frequencies are higher than PCC, and there have not been the same decreases post 2009 seen in PCC: 2010 saw a 5% increase, where PCC saw a decrease; and 2011 frequency did not decrease from 2010 in the same manner as PCC.

These differences are contrary to the trends in usage discussed earlier, albeit that these trends differ by category of vehicle.



Frequencies higher than PCC but lower than Fleet
Generally Non-Fleet is more deflationary than PCC, although 2010 did not see a decrease.



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Market statistics

Claim frequency (excluding nils)

Reported Claim Frequency (exc nils) at Latest Development – TPD

Period	PCC	CV Fleet	CV Non-Fleet
2007	4.4%	6.4%	4.7%
2008	4.2%	5.8%	4.5%
2009	4.1%	5.3%	4.4%
2010	3.9%	5.5%	4.5%
2011	3.4%	5.5%	3.8%
2012	3.5%	5.9%	3.8%

Annual Percentage Change

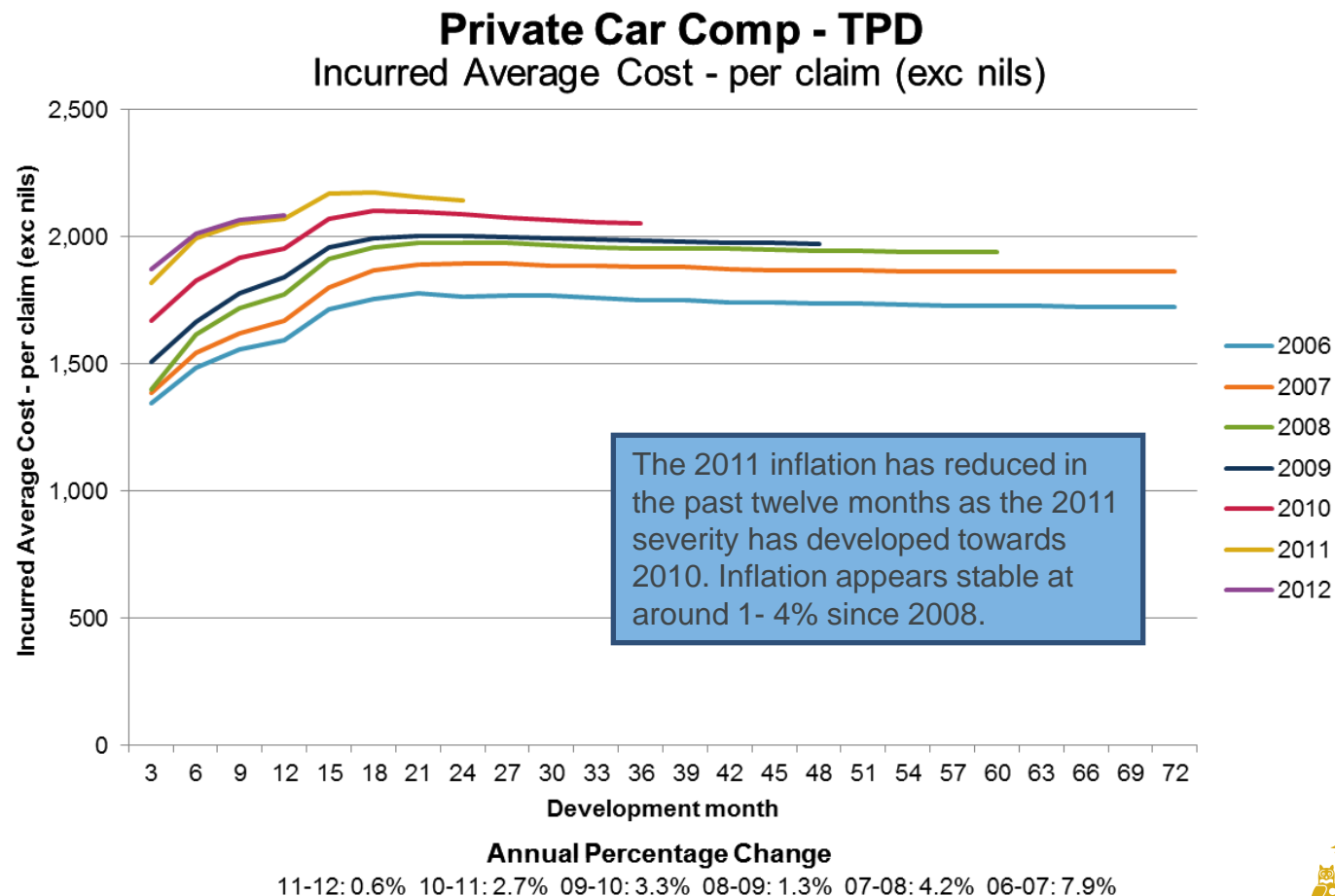
Period	PCC	CV Fleet	CV Non-Fleet
2007-2008	-4.4%	-10.2%	-4.1%
2008-2009	-1.7%	-8.9%	-3.1%
2009-2010	-5.5%	4.8%	1.0%
2010-2011	-12.4%	-3.6%	-14.8%
2011-2012	-1.6%	-2.2%	-3.2%
Average (2007 – 2012)	-5.2%	-4.1%	-5.0%



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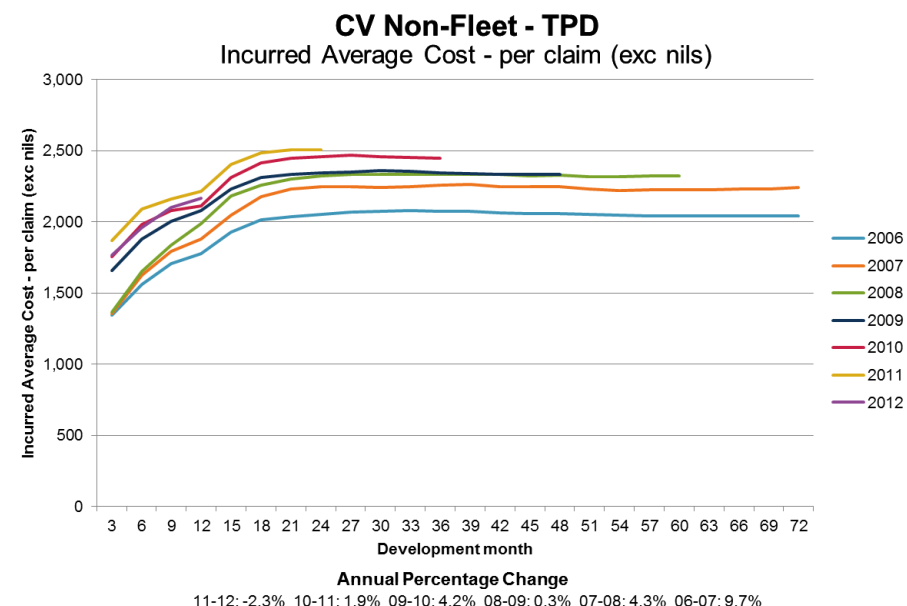
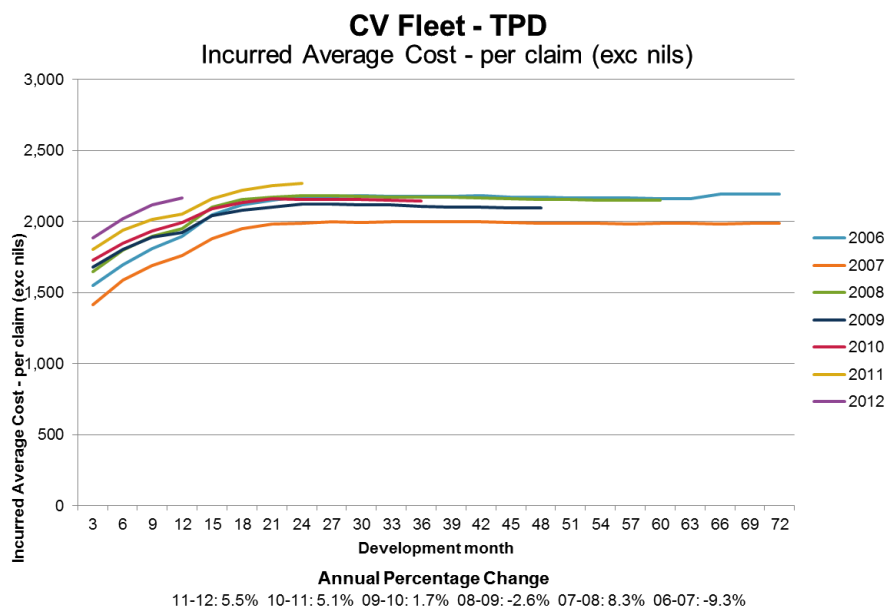
Claim severity (excluding nils)



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Market statistics

Claim severity (excluding nils)



Slightly higher overall level than PCC, with less favourable run off.

Inflation is slightly higher than PCC incurred inflation, although note potential case estimate weakening affecting PCC incurred average cost inflation.

Higher costs than PCC or Fleet, perhaps owing to larger vehicles causing more damage
Inflation in line with PCC (lower than Fleet); but with unusual downturn in 2012



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Claim severity (excluding nils)

Incurred Average Cost per Claim (exc nils) at Latest Development – TPD

Period	PCC	CV Fleet	CV Non-Fleet
2007	1,863	1,989	2,242
2008	1,943	2,151	2,323
2009	1,972	2,098	2,333
2010	2,052	2,143	2,445
2011	2,144	2,267	2,505
2012	2,084	2,165	2,165

Annual Percentage Change

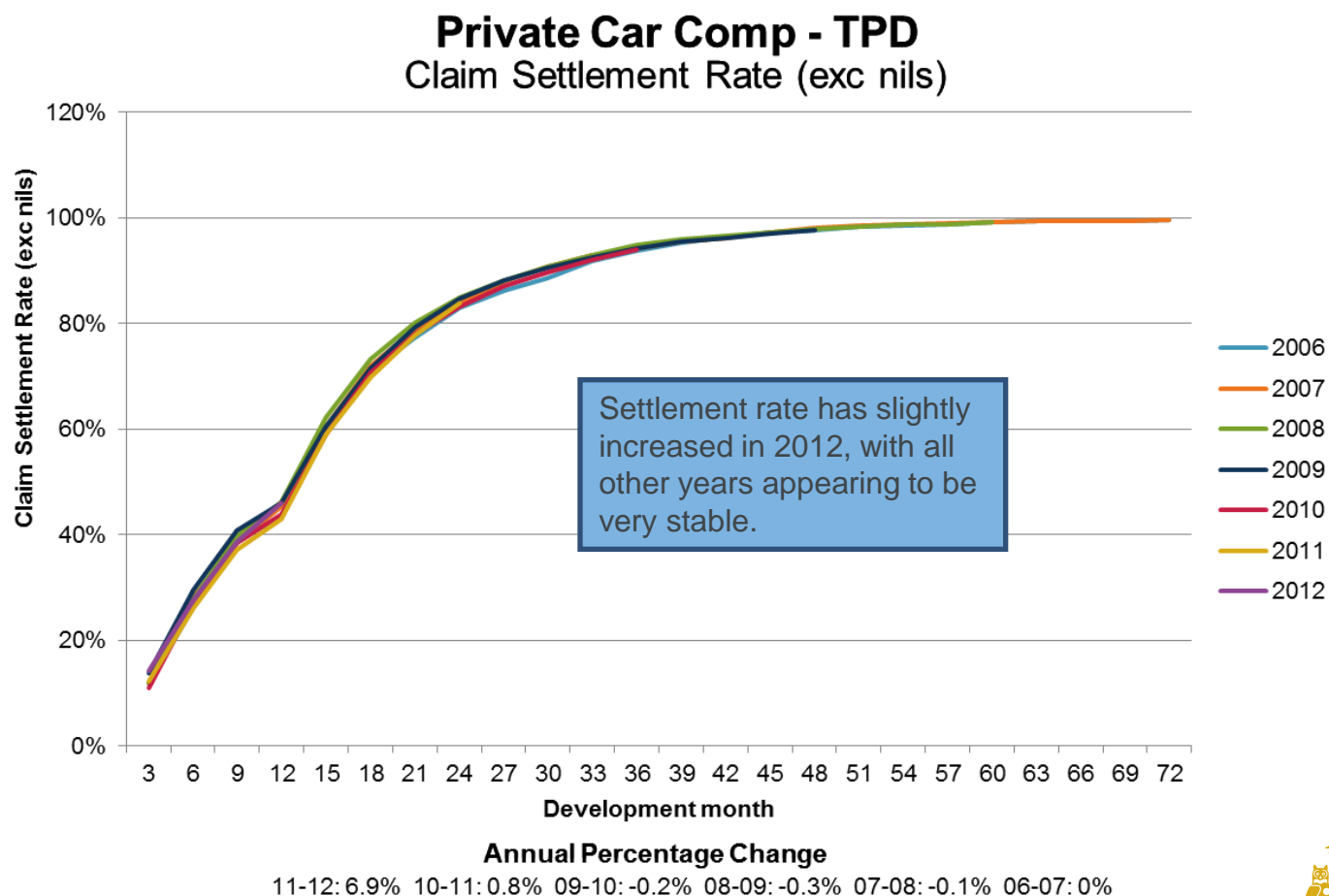
Period	PCC	CV Fleet	CV Non-Fleet
2007-2008	4.2%	8.3%	4.3%
2008-2009	1.3%	-2.6%	0.3%
2009-2010	3.3%	1.7%	4.2%
2010-2011	2.7%	5.1%	1.9%
2011-2012	0.6%	5.5%	-2.3%
Average (2007 – 2012)	2.4%	3.5%	1.6%



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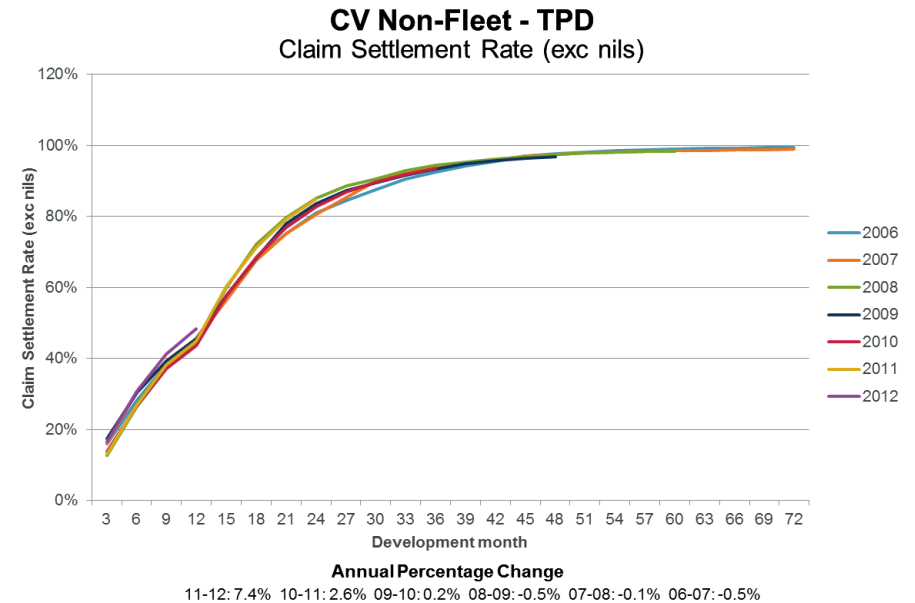
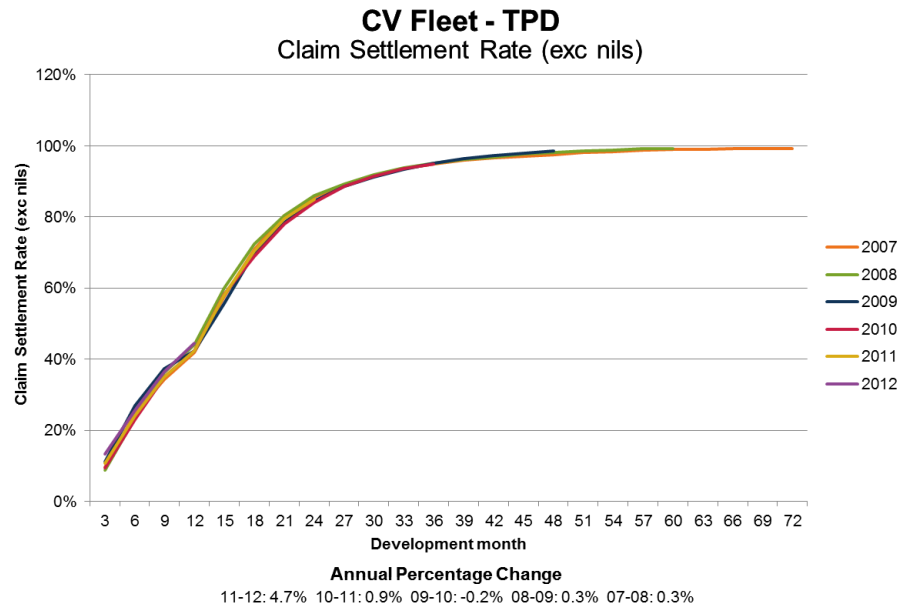
Settlement rate (excluding nils)



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Market statistics

Settlement rate (excluding nils)



Both very similar to
PCC



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Market statistics

Settlement rate (excluding nils)

Claim Settlement Rate (exc nils) at Latest Development – TPD

Period	PCC	CV Fleet	CV Non-Fleet
2007	99.6%	99.3%	98.9%
2008	99.1%	99.3%	98.4%
2009	97.6%	98.5%	96.9%
2010	94.0%	94.9%	93.6%
2011	83.9%	84.9%	84.9%
2012	46.0%	44.4%	48.3%

Annual Percentage Change

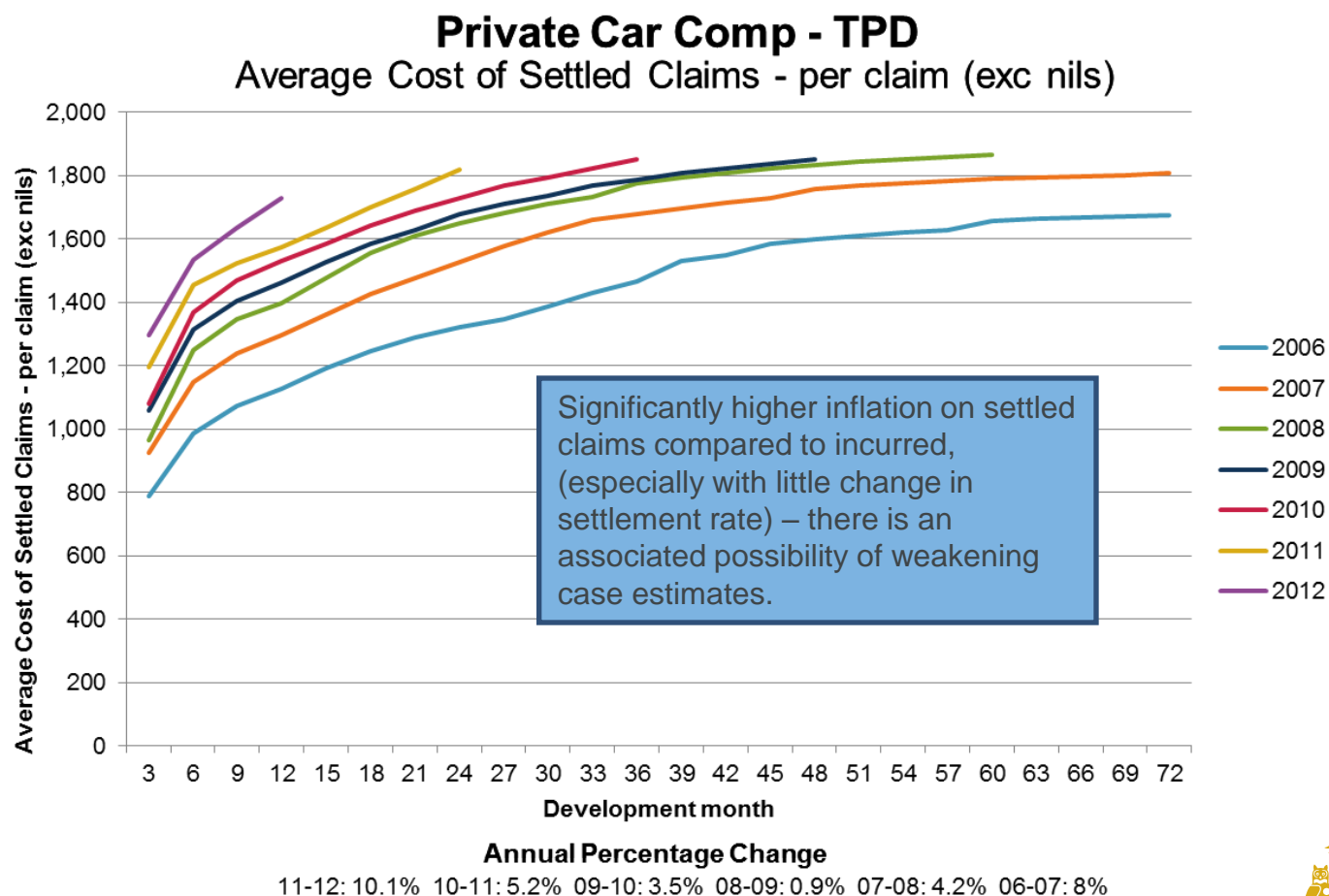
Period	PCC	CV Fleet	CV Non-Fleet
2007-2008	-0.1%	0.3%	-0.1%
2008-2009	-0.3%	0.3%	-0.5%
2009-2010	-0.2%	-0.2%	0.2%
2010-2011	0.8%	0.9%	2.6%
2011-2012	6.9%	4.7%	7.4%
Average (2007 – 2012)	1.4%	1.2%	1.9%



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Market statistics

Claim severity (excluding nils)



Market statistics

Claim severity (excluding nils)

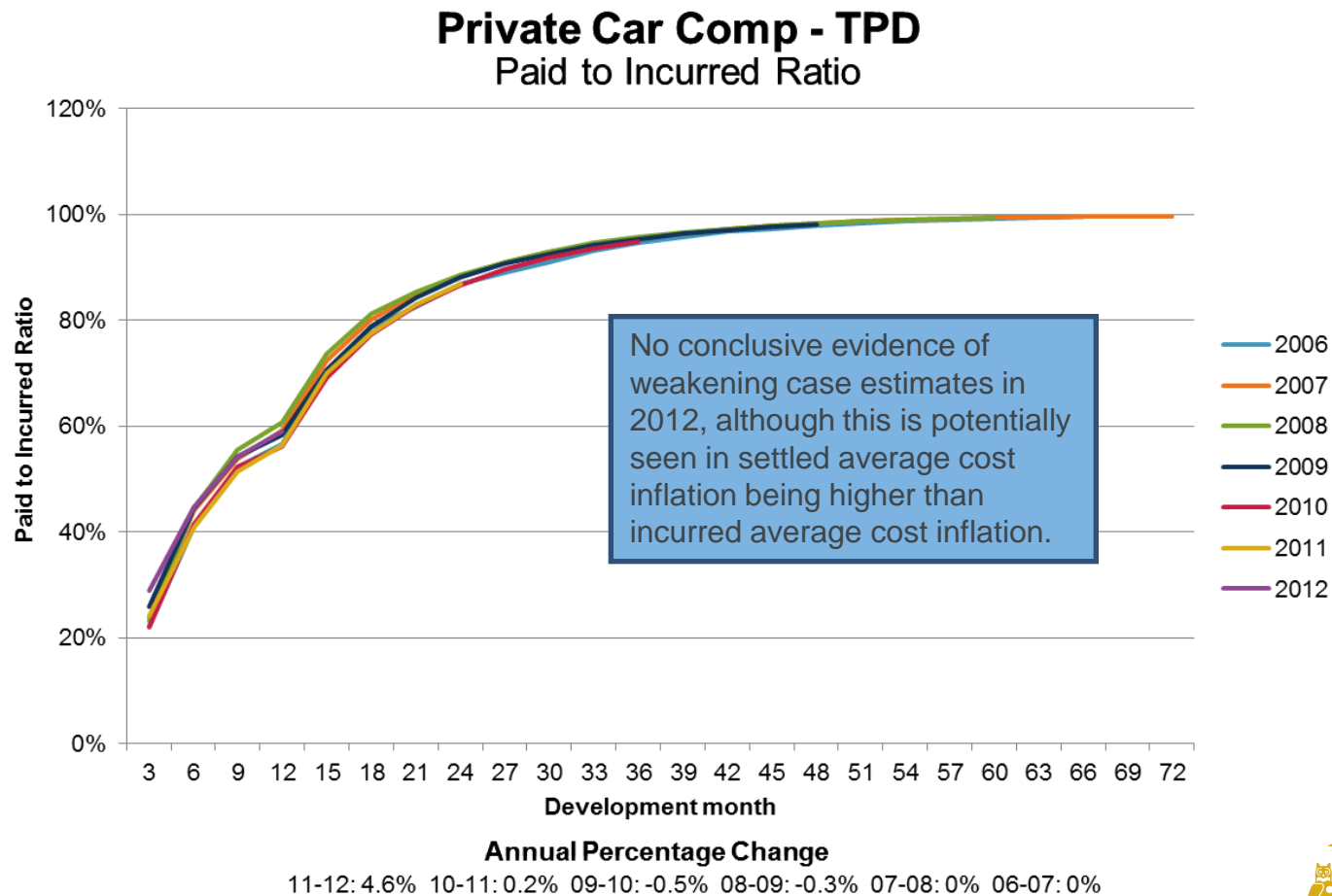
Period	TPD Settled Inflation	RPI	Difference
2007-2008	4.2%	4.0%	0.2%
2008-2009	0.9%	-0.5%	1.4%
2009-2010	3.5%	4.6%	-1.1%
2010-2011	5.2%	5.2%	0.0%
2011-2012	10.1%	3.2%	6.9%
Average (2007 – 2012)	4.7%	3.2%	1.5%

- TPD has been broadly consistent with RPI across the period 2007 to 2011, although before this period it was generally higher than RPI.
- The 2012 experience shows a significant additional inflation for TPD above RPI.



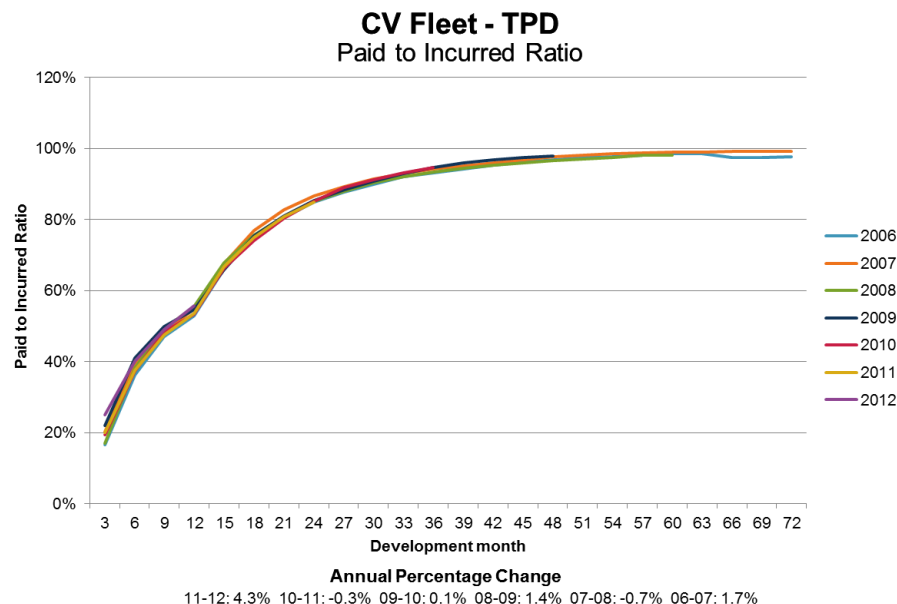
Market statistics

Paid to Incurred ratio



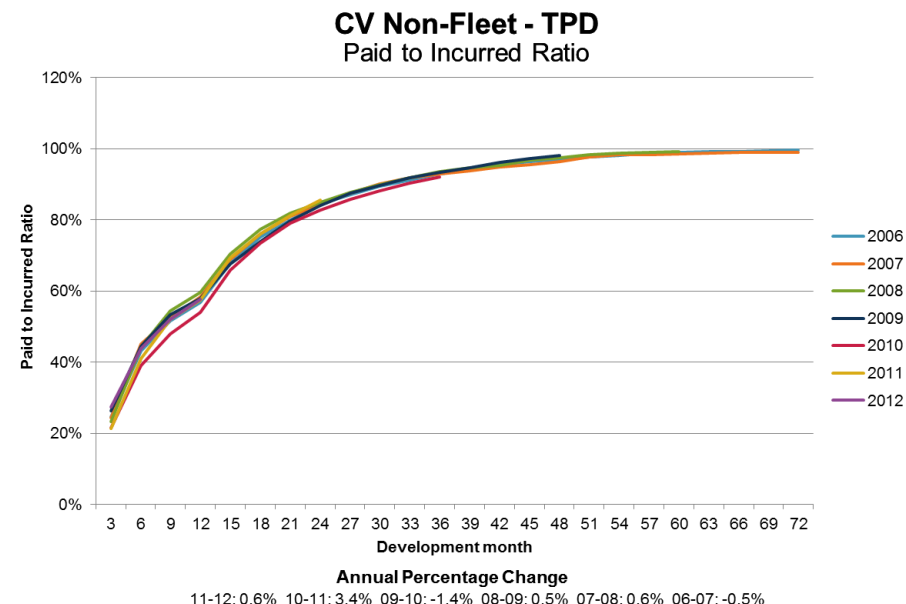
Market statistics

Paid to Incurred ratio



Very consistent year on year. Longer tailed than PCC because of longer reporting delays, more complex repairs and higher excesses generally.

We do not have the data to comment on case estimate strength in the same way as for PCC



Consistent with PCC. However, we are unable to conclude on case estimate weakening



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Market statistics

Paid to Incurred ratio

Paid to Incurred ratio at Latest Development – TPD

Period	PCC	CV Fleet	CV Non-Fleet
2007	99.7%	99.3%	99.0%
2008	99.4%	98.2%	99.2%
2009	98.0%	97.9%	98.0%
2010	94.9%	94.6%	92.0%
2011	86.9%	84.9%	85.6%
2012	59.0%	55.8%	57.7%

Annual Percentage Change

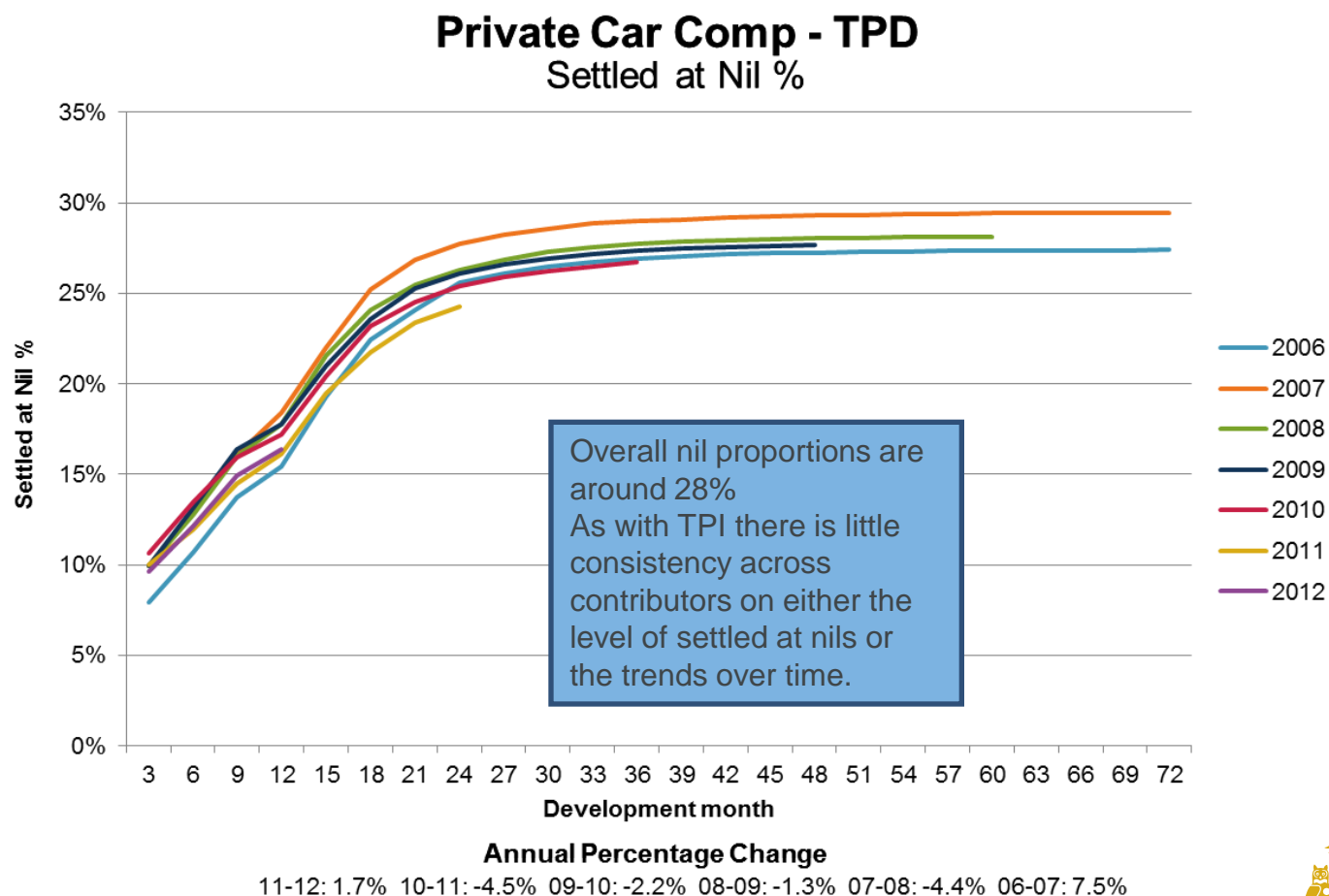
Period	PCC	CV Fleet	CV Non-Fleet
2007-2008	0.0%	-0.7%	0.6%
2008-2009	-0.3%	1.4%	0.5%
2009-2010	-0.5%	0.1%	-1.4%
2010-2011	0.2%	-0.3%	3.4%
2011-2012	4.6%	4.3%	0.6%
Average (2007 – 2012)	0.8%	0.9%	0.7%



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Market statistics

Settled at Nil proportion



Summary for TPD (excluding nils) – 1/3

	PCC	Fleet	Non-Fleet
Frequency Inflation	<ul style="list-style-type: none"> 2012 TPD frequency continues to drop but at lower rate than for previous accident years (-1.6% from 2011); but with signs in Q4 that the drops may have ended. 	<ul style="list-style-type: none"> TPD frequency has fallen by 2% in 2012 TPD frequency is higher than for PCC and without the same deflation post 2009 	<ul style="list-style-type: none"> TPD frequency fell by 3% in 2012 TPD shows overall levels of frequency between PCC & Fleet. Generally more deflationary than PCC or Fleet recently



Summary for TPD (excluding nils) – 2/3

	PCC	Fleet	Non-Fleet
Severity Inflation	<ul style="list-style-type: none"> TPD 2012 incurred severity inflation at 0.6% is lower than the all years average of 3.5%, although there is evidence of case estimate weakening, and settled inflation is at 10%, higher than previous accident years and than the long term average of 5.5%. 	<ul style="list-style-type: none"> Incurred TPD severity inflation is 5.5% in 2012. TPD shows slightly higher overall level than PCC, with less favourable run off. Inflation is slightly higher than PCC incurred inflation, although note potential case estimate weakening affecting PCC incurred average cost inflation. 	<ul style="list-style-type: none"> TPD incurred severity fell 2.3% in 2012. TPD shows higher costs than PCC or Fleet. Inflation is in line with PCC (lower than Fleet); but with unusual downturn in 2012.

Summary for TPD (excluding nils) – 3/3

	PCC	Fleet	Non-Fleet
Burning Cost	<ul style="list-style-type: none"> TPD burning cost inflation in the region of -2% to 8% in 2012 	<ul style="list-style-type: none"> TPD burning cost inflation in the region of 2% - 5% in 2012 	<ul style="list-style-type: none"> TPI burning cost inflation in the region of - 8% in 2012.
Nil Claims	<ul style="list-style-type: none"> The overall nil proportions is around 28% The level of nil claims has reduced in 2011 and 2012 although this is not consistent across contributors 		
Notes to Reserving Actuaries	<ul style="list-style-type: none"> Reserving actuaries should apply caution before relying solely on TPD incurred data 		






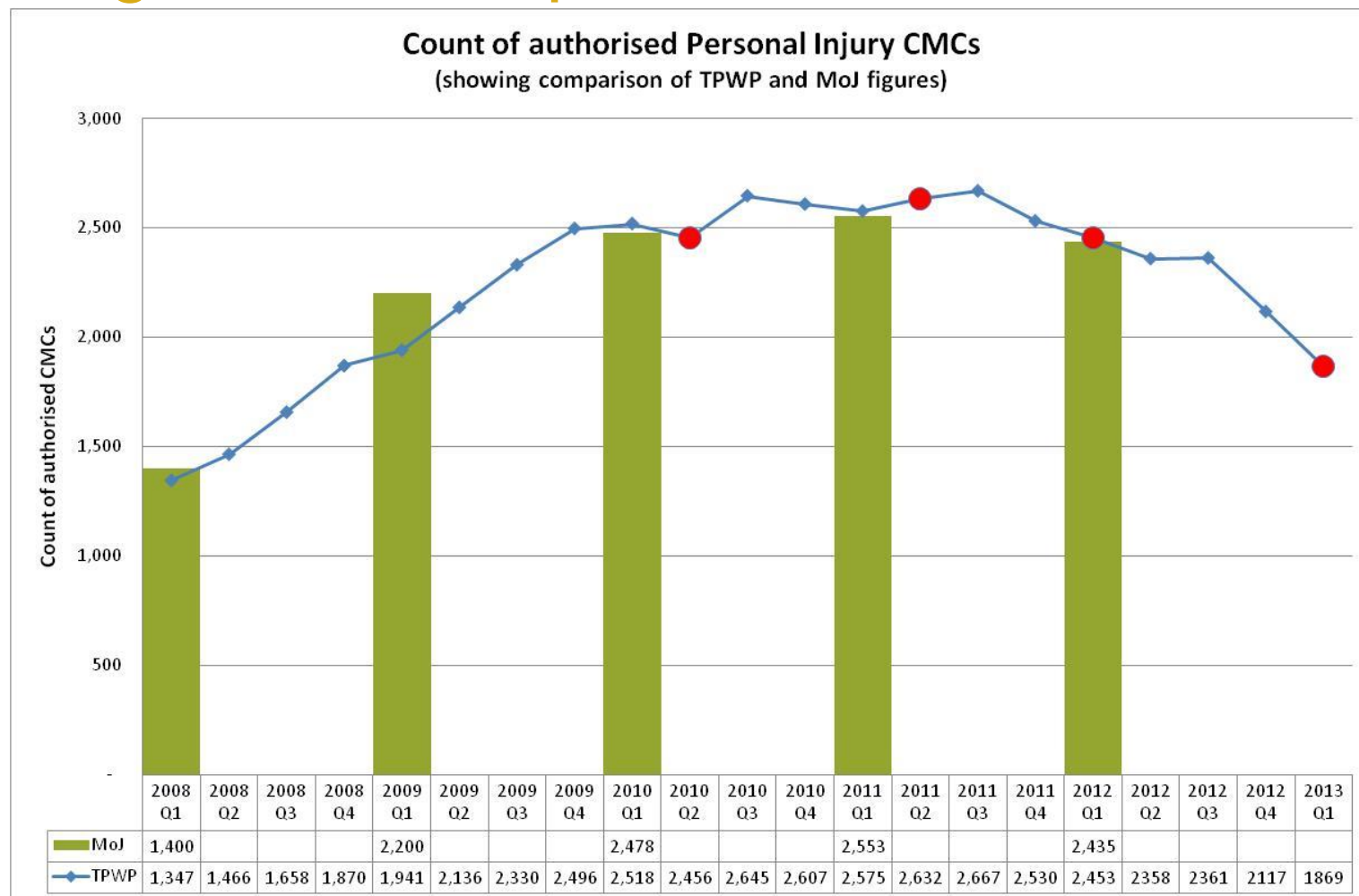
1. Scene Setting
2. Market Statistics: TPD
3. Market Statistics: TPI
4. Conclusions

Market Statistics

Claims Management Companies

Key

-  TPWP estimate of count of CMCs.
-  TPWP data extraction periods.
-  Count of CMCs from MoJ annual report.



Market Statistics

Claims Management Companies

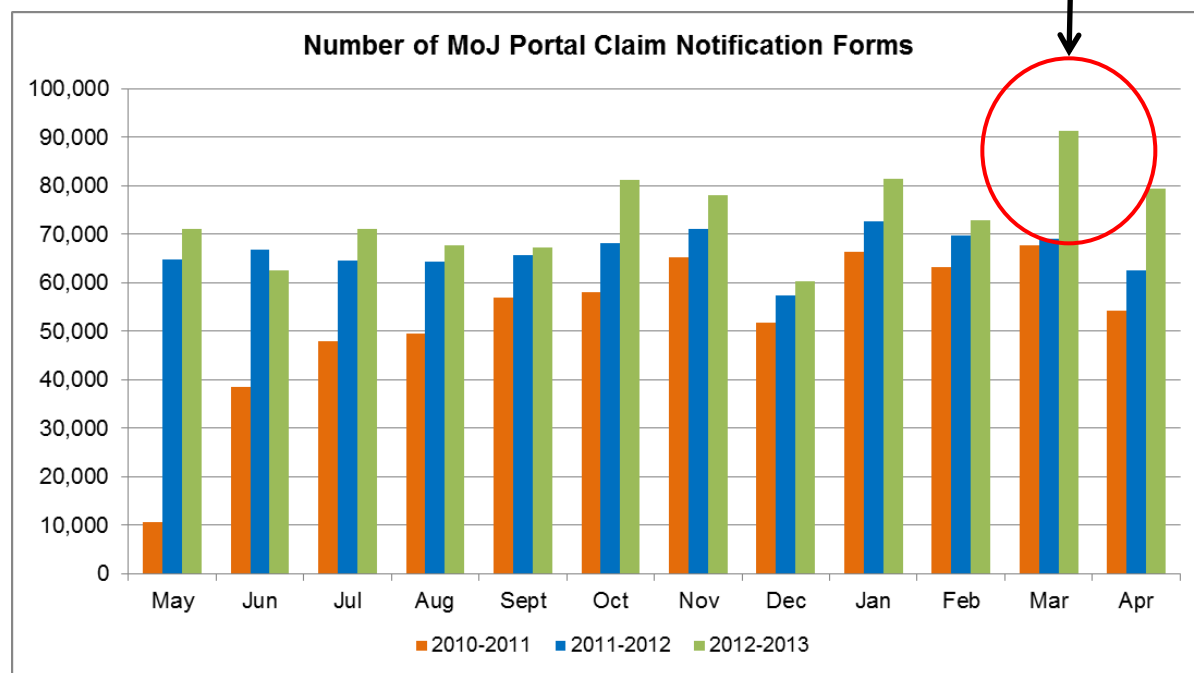
- The number of authorised CMCs decreased to 1,869, a reduction of 24% in the year to March 2013. This compares to drop of 5% in the previous year.
- The decline in the number of CMCs is accelerating. A third of the reduction occurred in the second half of March, probably driven by Civil Litigation Reforms, including LASPO and the reduction in fixed recoverable costs.
- While the reduction in CMC numbers suggests an overall reduction in CMC activity, past reductions have not resulted in a fall in CMC revenues (which is a better measure of activity).
- The MoJ annual Claim Regulation report is expected to be released in July, at which point we will be able to compare revenues in 2013 to those in previous years.



Market Statistics

MoJ Portal Notifications

- The number of MoJ portal claim notification has increased by over 30% in March and April this year compared to same period in 2012.
- This is likely to be due to lawyers registering claims before the introduction of LASPO and the reduction of the fixed recoverable costs in the portal.

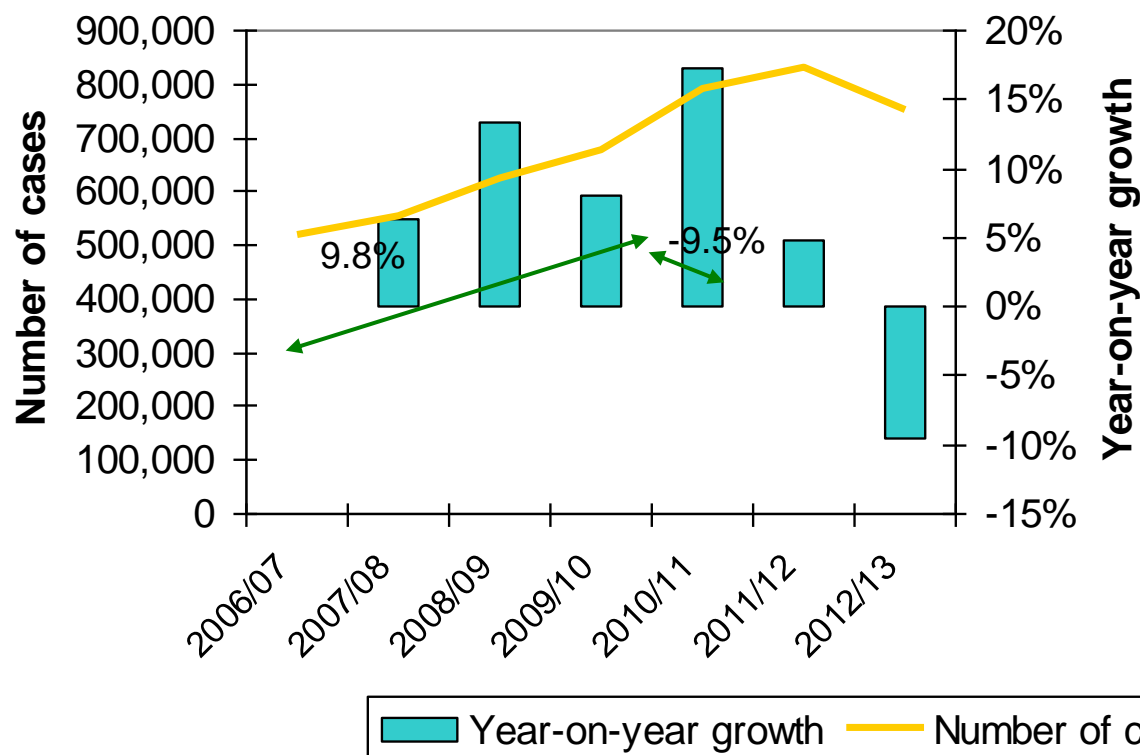


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Market Statistics

CRU Data

Number of motor cases registered to the CRU



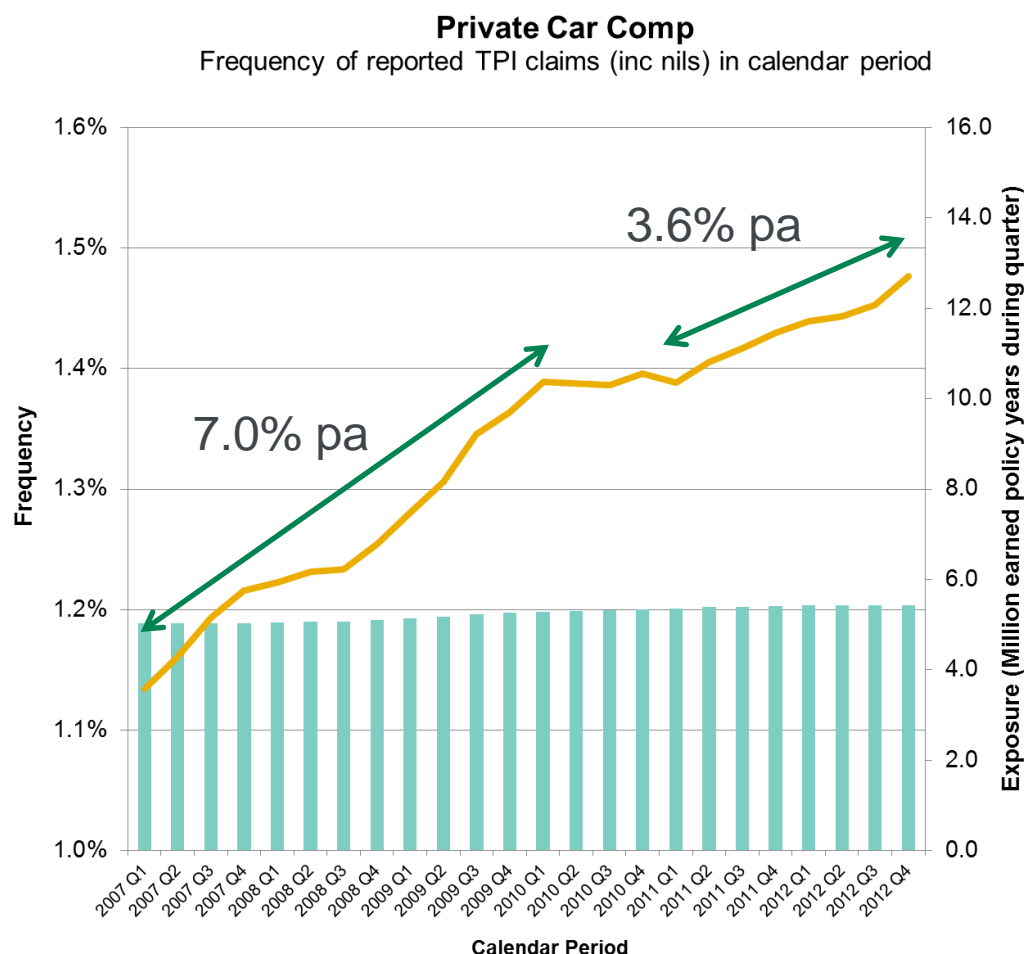
- All insurers have to inform the Compensation Recovery Unit within 14 days of an injury claim being notified.
- The number of motor claimants notified to the Compensation Recovery Unit has fallen by nearly 10% in the 12 months to March 2013, after many years of steady increases.
- This is at odds with insurer data showing continued increases in the number of claims.
- There are some anomalies in the CRU data which mean it should be treated with caution.



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Market statistics

Reported TPI Claims by calendar period

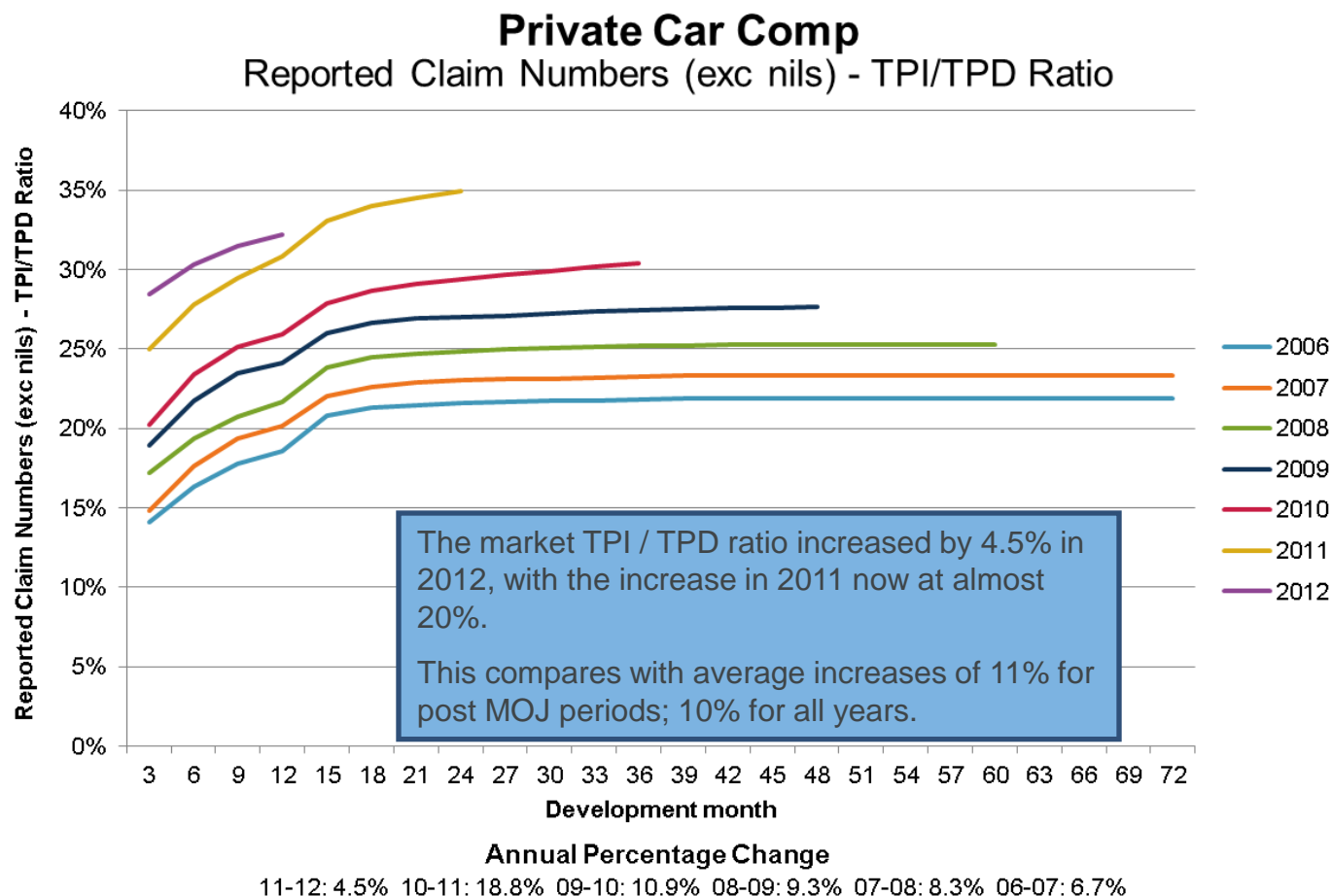


- The chart shows that key trends identified last year (such as the levelling off in reported claims in 2010 and subsequent increases) are also present in this year's data.
- Reported frequency in 2012 calendar year is approaching 1.5% – an early indicator of even higher frequencies on an accident year basis?



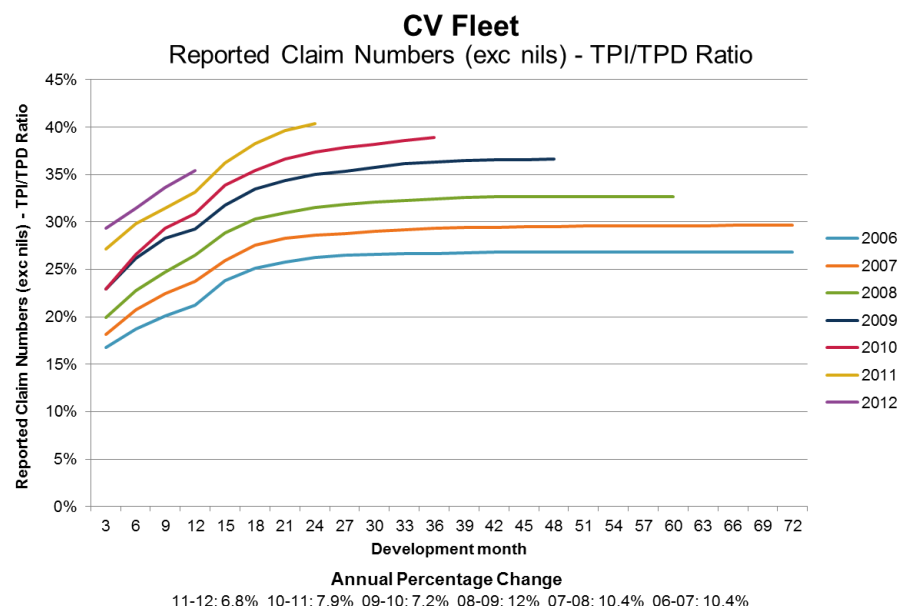
Market statistics

Ratio of TPI to TPD claim numbers (excluding nils)

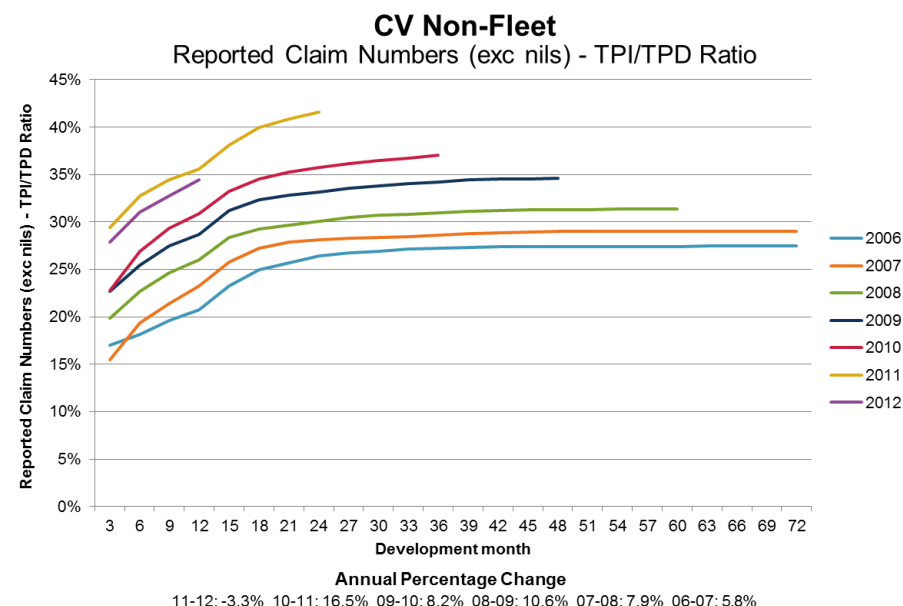


Market statistics

Ratio of TPI to TPD claim numbers (excluding nils)



Overall levels are higher than for PCC, although the inflation is lower, particularly in 2011. It is unclear why Fleet would have higher levels of TPI/TPD than PCC.



Ratios higher than PCC and (with exception of 2011) just lower than Fleet.
Inflation is lower than PCC and Fleet and the reduction in 2012 is not seen for PCC and Fleet.



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Market statistics

Ratio of TPI to TPD claim numbers (excluding nils)

TPI/TPD Ratio at Latest Development

Period	PCC	CV Fleet	CV Non-Fleet
2007	23.3%	29.6%	29.0%
2008	25.3%	32.7%	31.3%
2009	27.6%	36.6%	34.6%
2010	30.4%	38.9%	37.0%
2011	34.9%	40.3%	41.6%
2012	32.2%	35.4%	34.4%

Annual Percentage Change

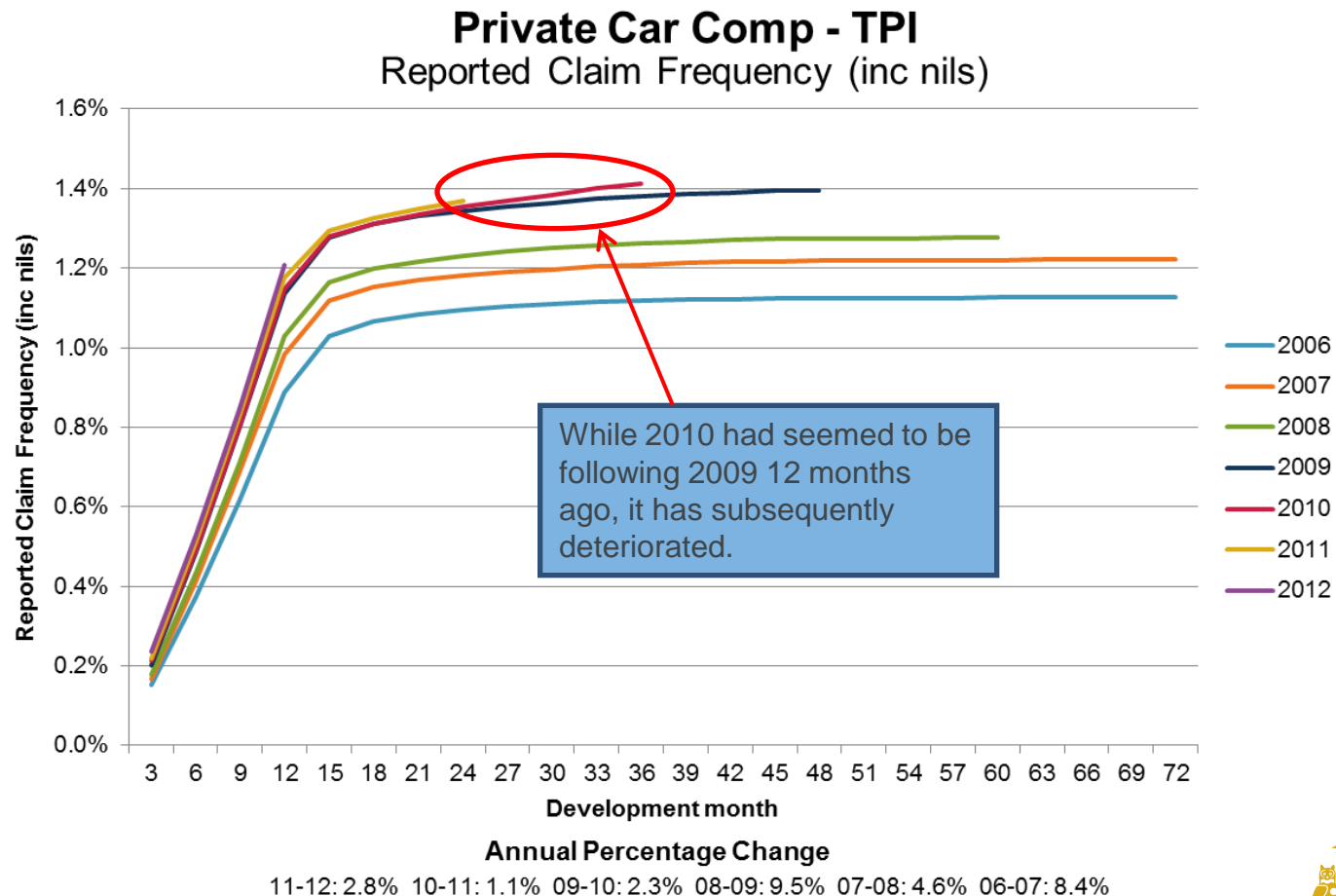
Period	PCC	CV Fleet	CV Non-Fleet
2007-2008	8.3%	10.4%	7.9%
2008-2009	9.3%	12.0%	10.6%
2009-2010	10.9%	7.2%	8.2%
2010-2011	18.8%	7.9%	16.5%
2011-2012	4.5%	6.8%	-3.3%
Average (2007 – 2012)	10.3%	8.8%	7.8%



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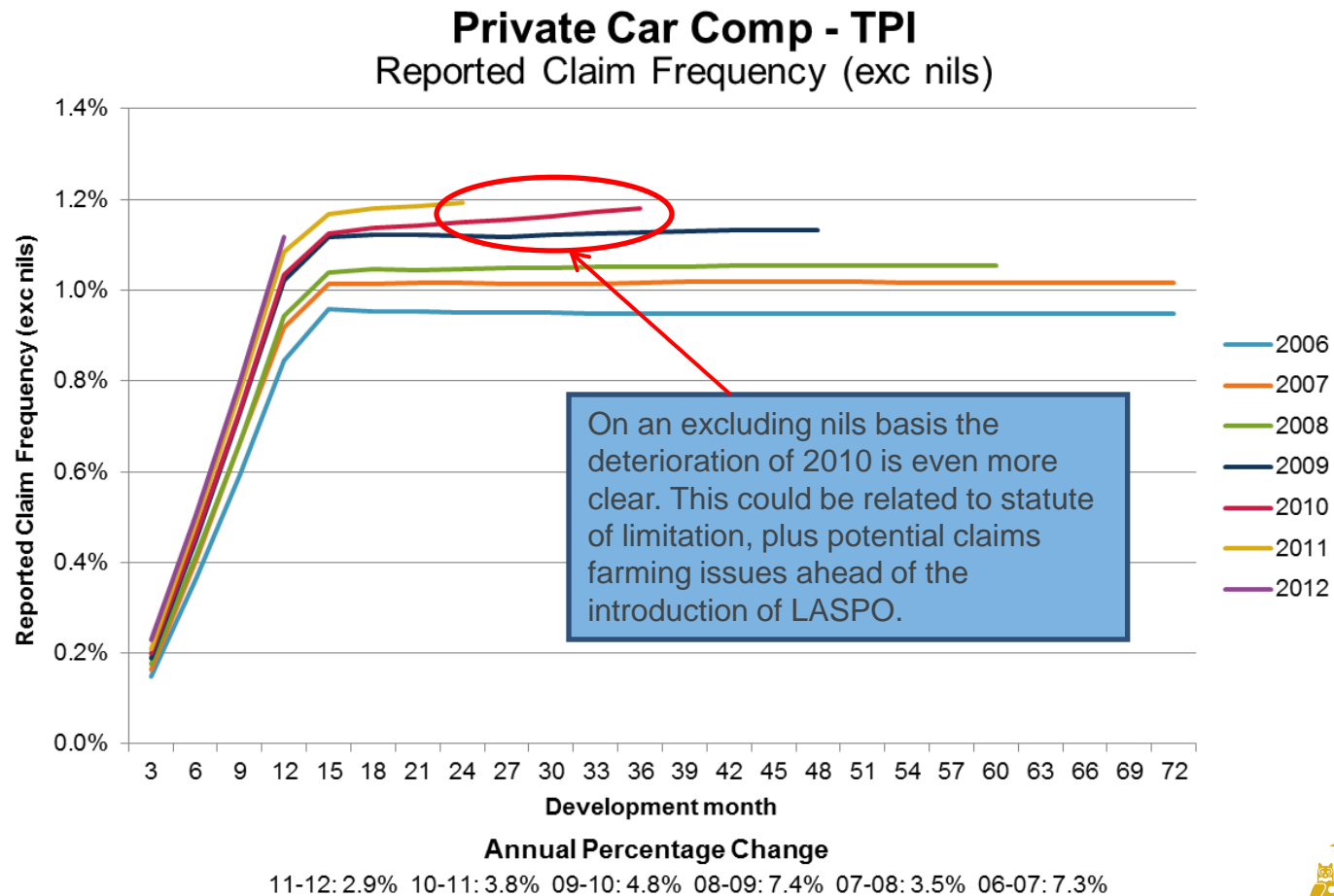
Market statistics

Claim frequency (including nils)



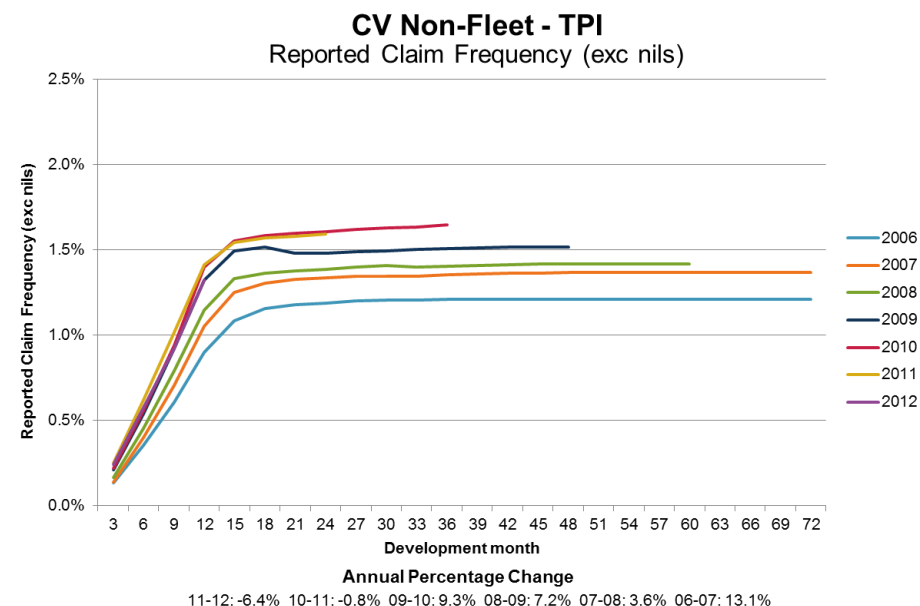
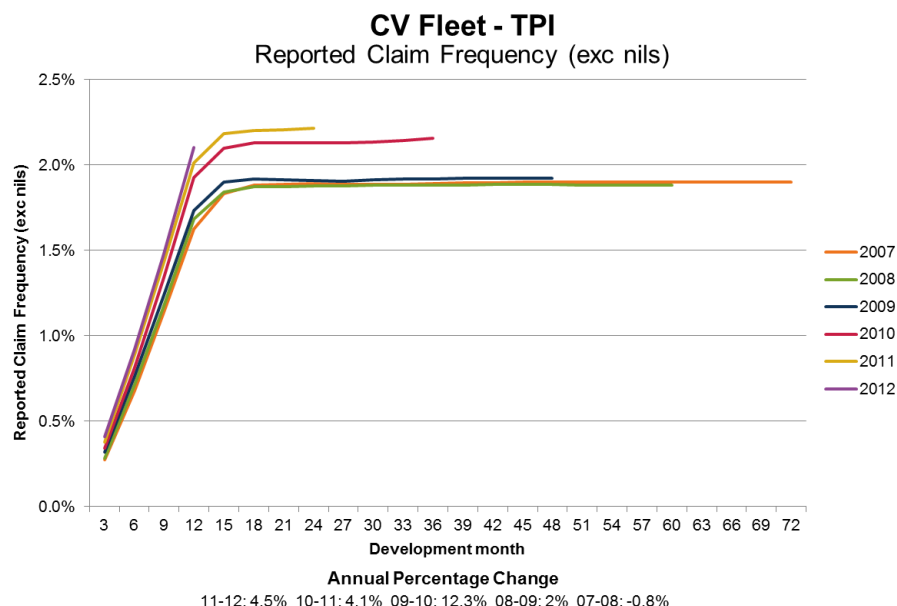
Market statistics

Claim frequency (excluding nils)



Market statistics

Claim frequency (excluding nils)



CV Fleet has shown higher levels of frequency inflation in recent years than PCC, particularly in 2010. This higher level is partly a result of Fleet not having seen the same drop in accidents (TPD) as PCC. Overall frequency much higher than PCC, although note that exposure measures may be approximations for some fleet accounts.

Frequencies higher than PCC but lower than Fleet
Inflation higher than PCC up to 2010, but lower thereafter. 2010 inflation is higher than that for PCC, however 2011 and 2012 both show reductions in frequency unlike PCC or Fleet.



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Market statistics

Claim frequency (excluding nils)

Reported Claim Frequency (exc nils) at Latest Development – TPI Capped

Period	PCC	CV Fleet	CV Non-Fleet
2007	1.0%	1.9%	1.4%
2008	1.1%	1.9%	1.4%
2009	1.1%	1.9%	1.5%
2010	1.2%	2.2%	1.6%
2011	1.2%	2.2%	1.6%
2012	1.1%	2.1%	1.3%

Annual Percentage Change

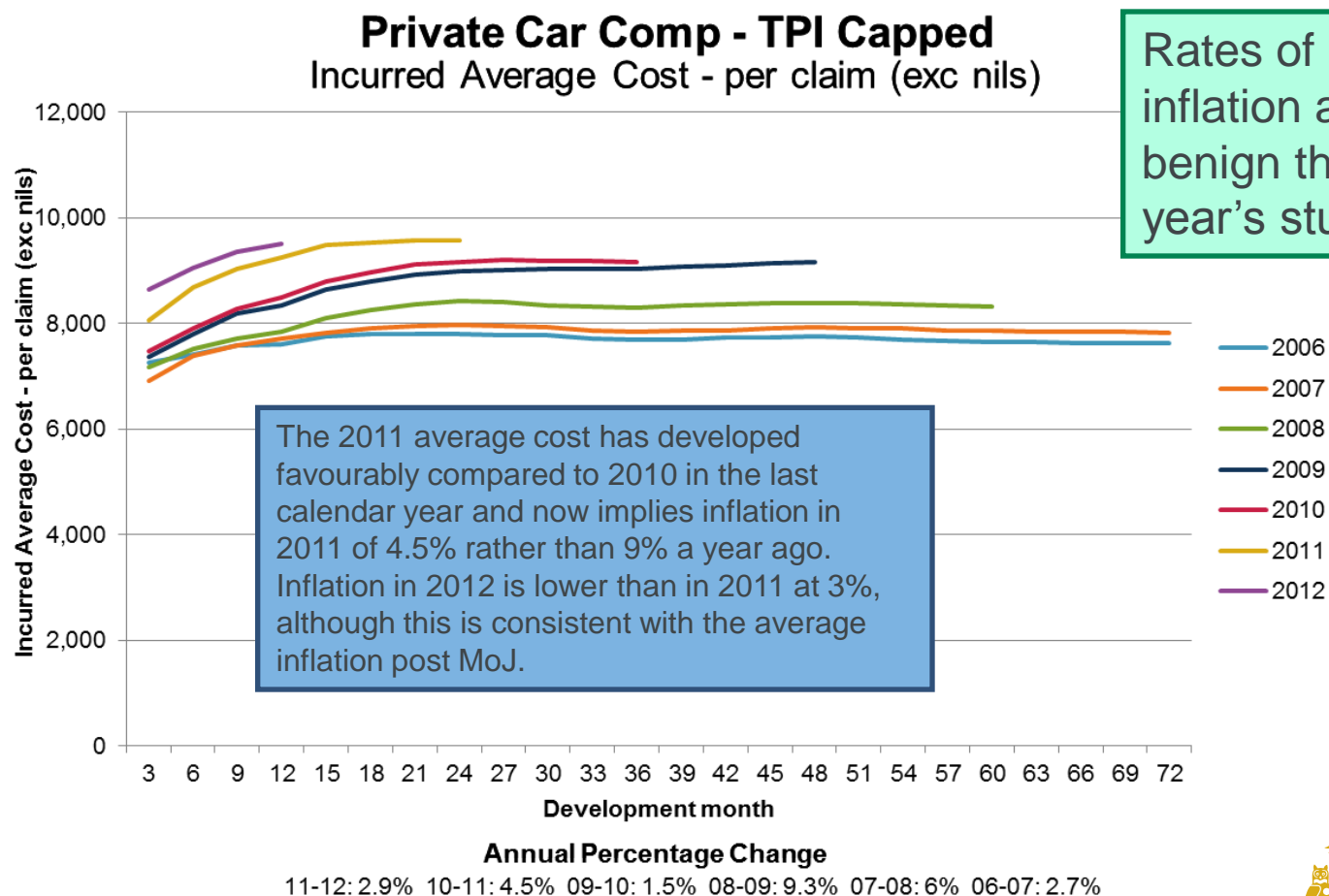
Period	PCC	CV Fleet	CV Non-Fleet
2007-2008	3.5%	-0.8%	3.6%
2008-2009	7.4%	2.0%	7.2%
2009-2010	4.8%	12.3%	9.3%
2010-2011	3.8%	4.1%	-0.8%
2011-2012	2.9%	4.5%	-6.4%
Average (2007 – 2012)	4.5%	4.3%	2.4%



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Market statistics

Claim severity (excluding nils)



Rates of severity inflation are more benign than in last year's study.

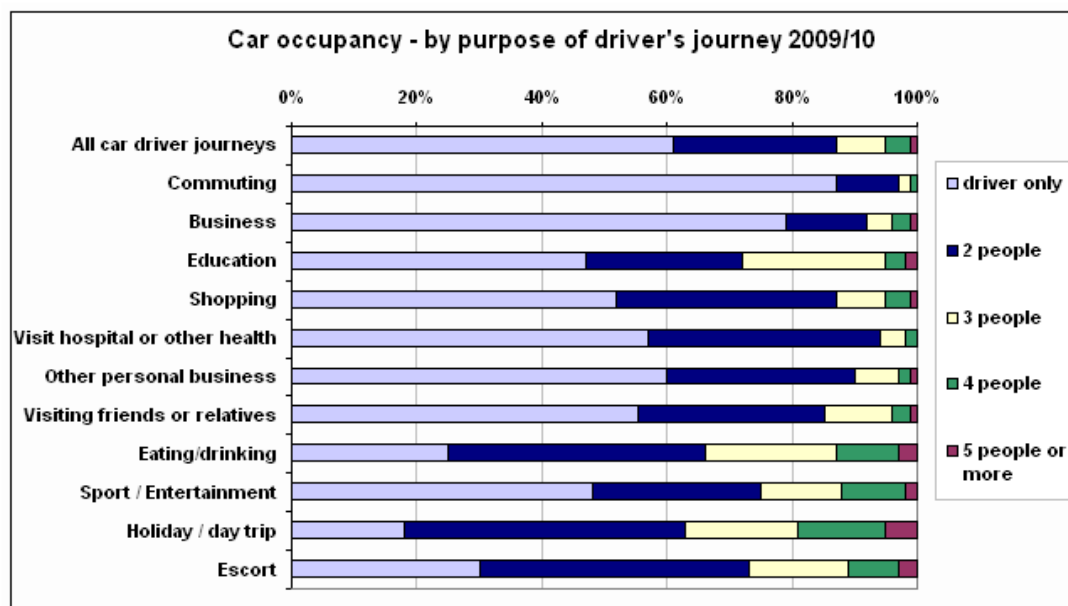


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Scene Setting

Car Occupancy

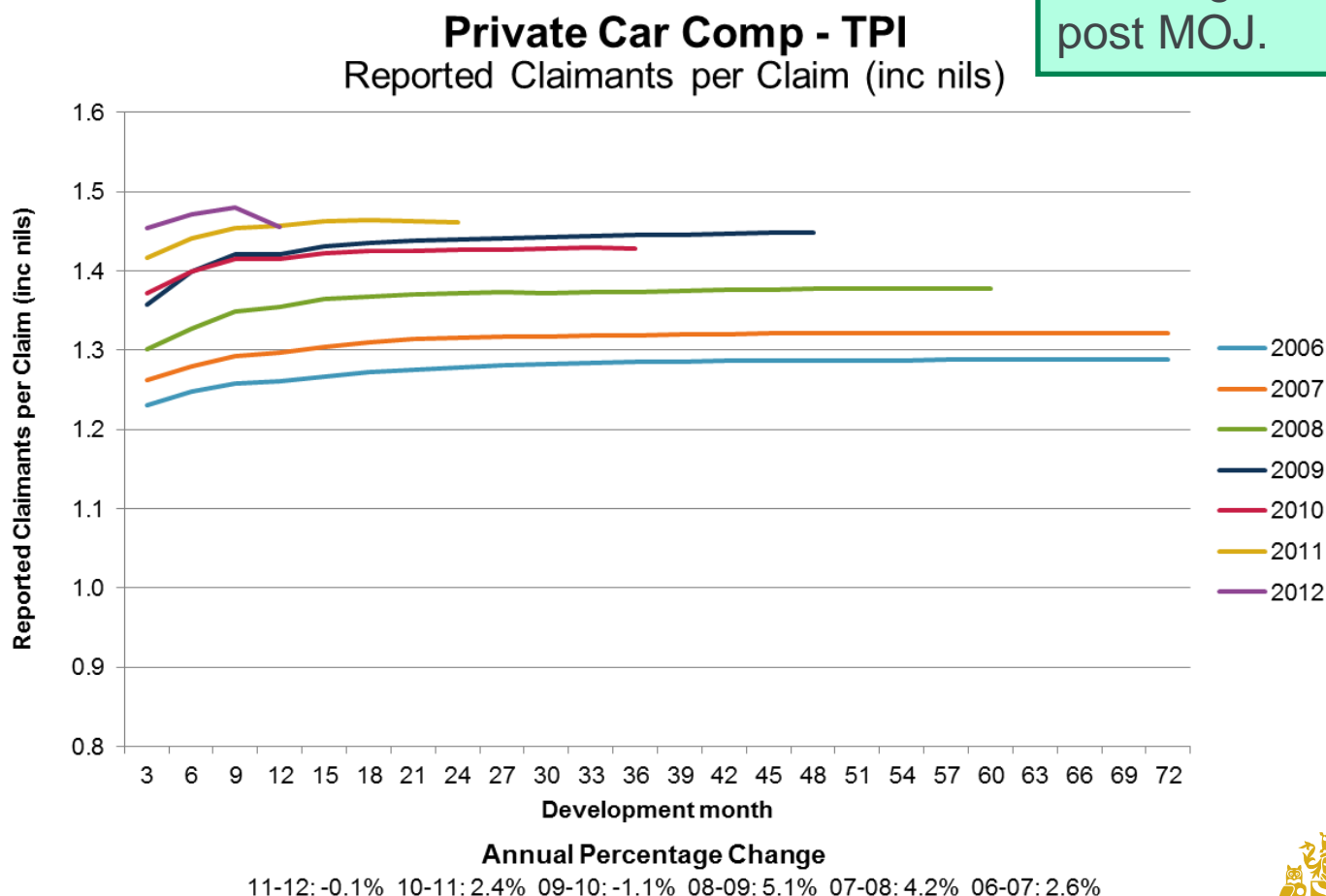
- Average car occupancy as at 2010 was 1.56*. **This implies a maximum level of average claimants per claim for a two vehicle accident of 2.12** ($1.56 + 1.56 - 1$ at fault driver).
- Over 2000-2010, the highest average car occupancy was 1.6 (2008), with 2010 being the lowest year.*
- Average car occupancy varies by journey type*:
 - 1.2 for commuting and business
 - 1.4 for personal business
 - 1.7 for shopping and leisure (visit friends at home and elsewhere, entertainment and sport)
 - 2.0 for education, holiday/day trip, other.
- Recent ONS review of the 2011 census suggested average car occupancy for commuting (in England and Wales) had fallen to 1.09, a reduction of 9%. Similar reductions for other journey type would suggest a maximum average level of claimants per claim of 1.8; 2012 National Travel Survey results should be available in July to confirm this figure.



Market statistics

Claimants per claim (including nils)

And whilst the numbers of claimants per claim was an inflationary driver in earlier years, this has been significantly less post MOJ.



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Market statistics

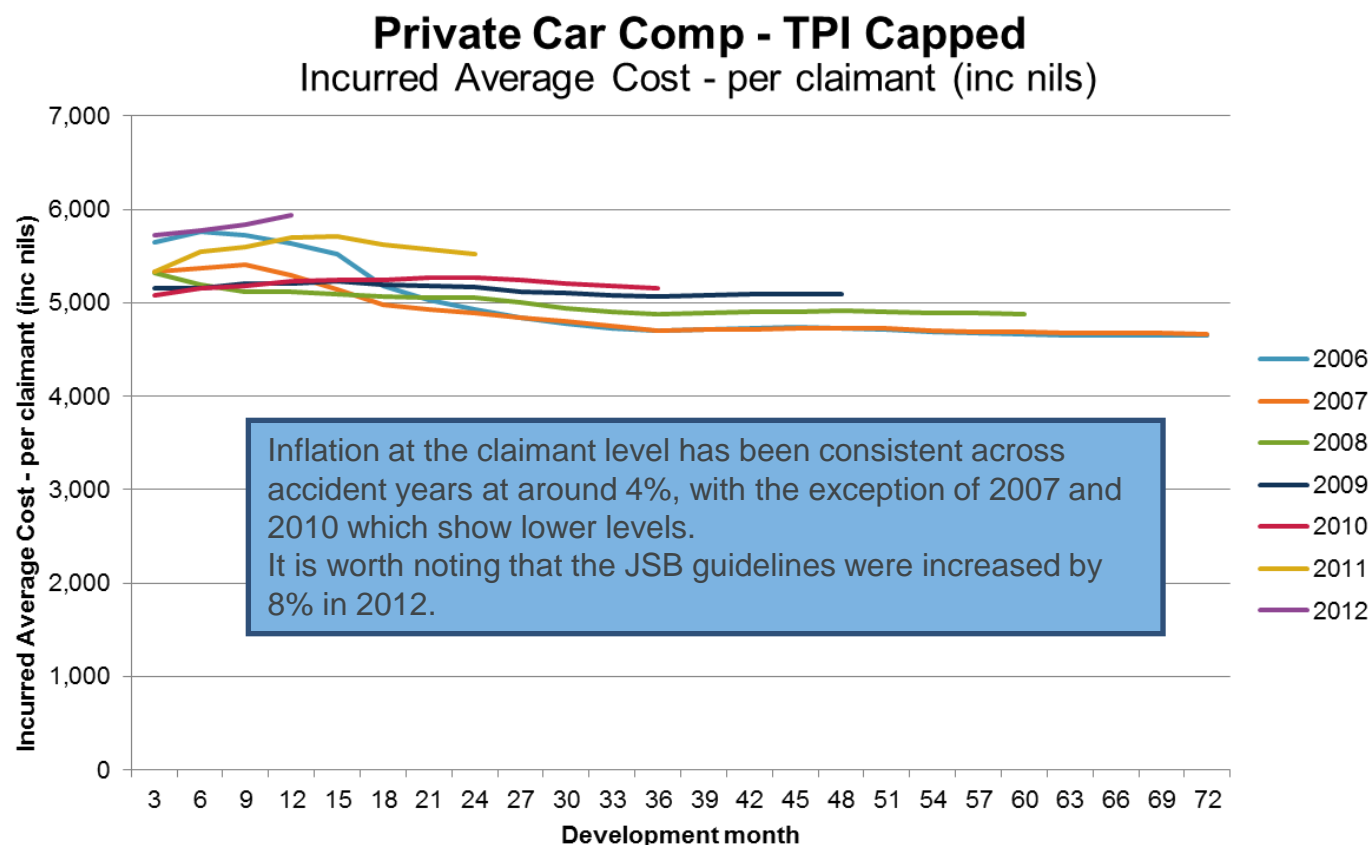
Claimants per claim (including nils)

- Average claimants per claim has risen from just under 1.3 to almost 1.5 in six years, with the rise pre-dating the emergence of CMCs.
- The analysis of car occupancy would suggest a theoretical maximum of 2.1 for accidents in 2010.
- Inflation post MOJ has largely stalled, and 2012 saw an unusual reduction in the fourth quarter of 2012 which has brought it into line with 2011 – although consistent across providers this may be anomalous and inflation exists in earlier development.
- 2010 still appears to be anomalous in that the average number of claimants per claim was lower than the previous year, and interestingly the late claim frequency development of accident year 2010 has not been reflected to the same degree in claimants per claim.
- In previous TPWP analyses there has not been sufficient data to directly analyse claimants per claim. However, using suitable proxies had suggested an average claimants per claim of 1.4 and inflationary effects up to around 7% per annum. While the previous level of claimants per claim estimated is consistent with the latest position, the increase in claimants per claims has been less than 7% per annum recently.
- If car occupancy has reduced since 2010, as indicated in the census data, this would act as a brake on natural Claimant per claim inflation



Market statistics

Claim severity (including nils)



Annual Percentage Change
11-12: 4.3% 10-11: 4.8% 09-10: 1.6% 08-09: 3.6% 07-08: 4.1% 06-07: 0.4%

The average cost per claimant inflation has been reasonably consistent and in the range of 2% to 5% with the larger inflation observed on a per claim basis the result of increasing numbers of claimants per claim in the earlier years. The drop in claim level inflation is because of the absence of Claimant per Claim inflation, but is there a risk of adverse development due to back farming?



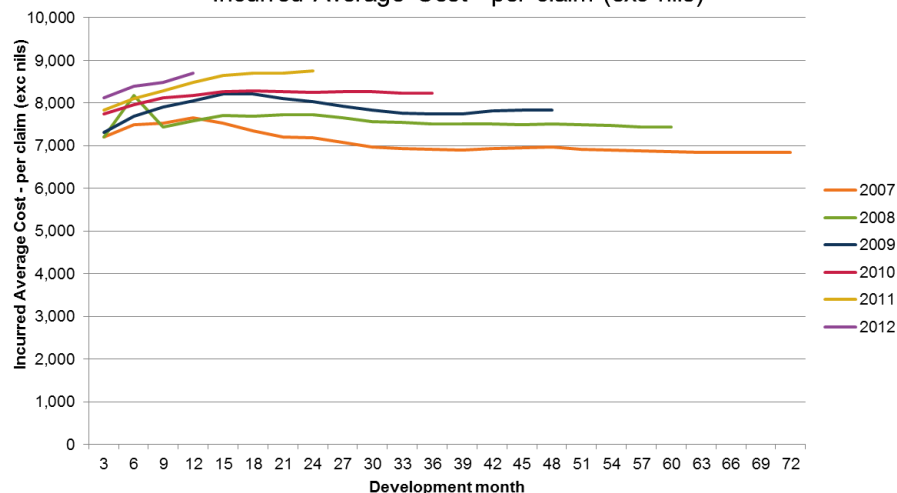
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Market statistics

Claim severity (excluding nils)

CV Fleet - TPI Capped

Incurred Average Cost - per claim (exc nils)

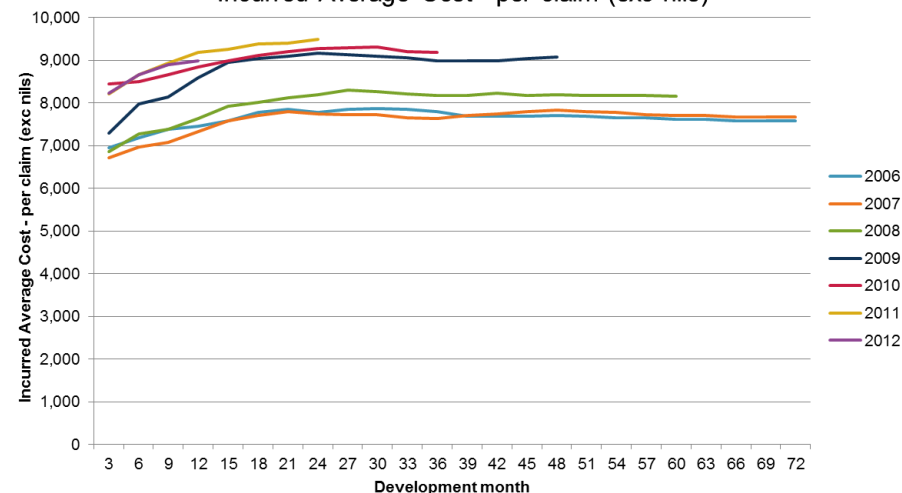


Annual Percentage Change

11-12: 2.4% 10-11: 6.3% 09-10: 6.2% 08-09: 4.3% 07-08: 8.2%

CV Non-Fleet - TPI Capped

Incurred Average Cost - per claim (exc nils)



Annual Percentage Change

11-12: -2.1% 10-11: 2.5% 09-10: 2.3% 08-09: 10.7% 07-08: 6% 06-07: 1.3%

Overall levels are lower than PCC, with similar inflation in 2012. This may be due to the number of passengers per vehicle, with associated lower average claimants per claim, or effects due to more daytime driving or enforced driving during periods of bad weather. Note that the reduction in inflation in PCC post MOJ is not seen here (other than 2012). There also appears to be a change in pattern with no redundancy after 18 months for 2010 and later.

Absolute costs are slightly lower than PCC, but higher than Fleet. It is not clear, however, why the factors differentiating Fleet from PCC do not apply to Non-Fleet. Inflation is similar to PCC, with the same drop post MOJ, although lower in 2012 (potentially due to volatility).



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Market statistics

Claim severity (excluding nils)

Incurred Average Cost per Claim (exc nils) at Latest Development – TPI Capped

Period	PCC	CV Fleet	CV Non-Fleet
2007	7,828	6,837	7,676
2008	8,330	7,431	8,167
2009	9,164	7,841	9,077
2010	9,167	8,233	9,195
2011	9,585	8,760	9,500
2012	9,512	8,694	8,985

Annual Percentage Change

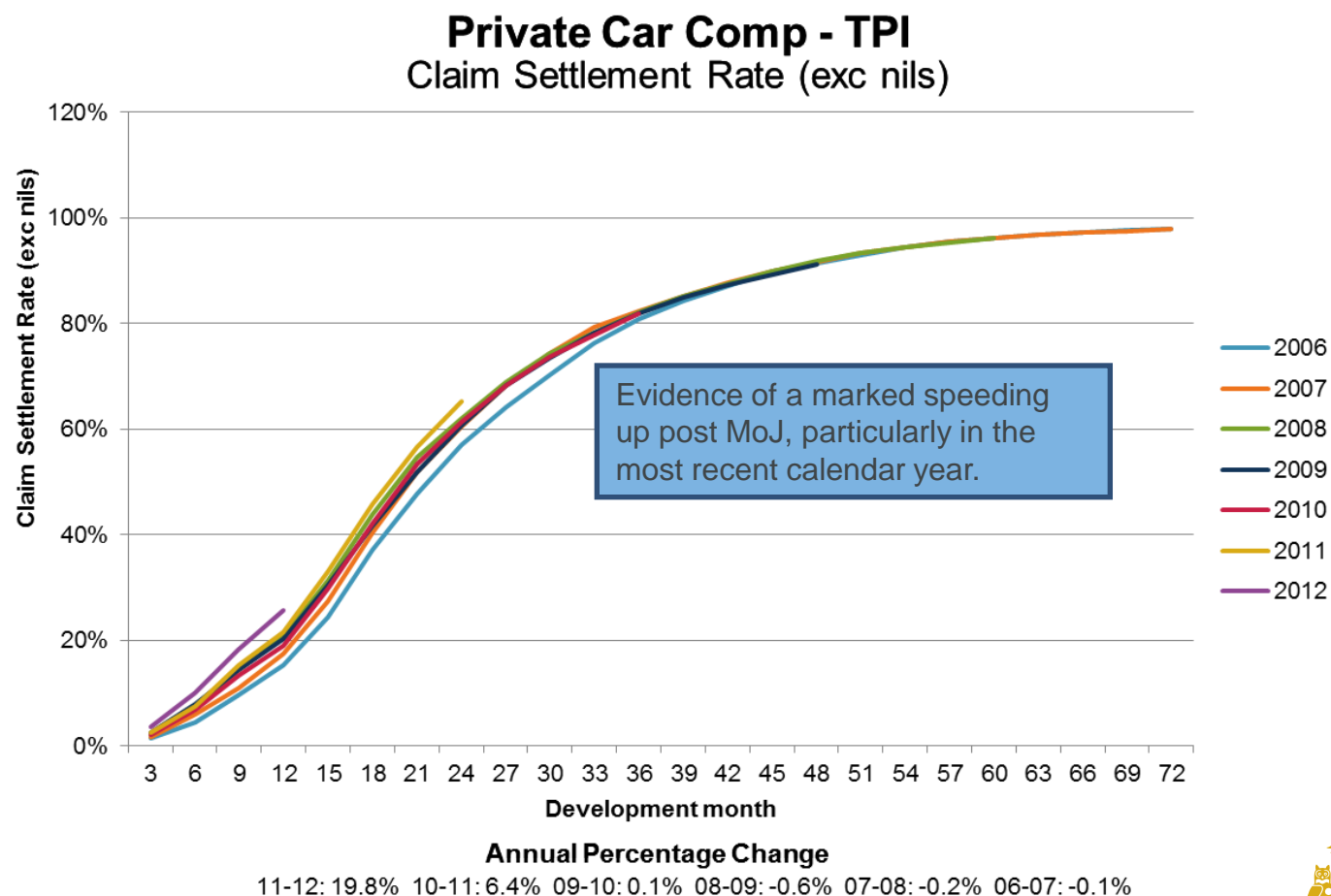
Period	PCC	CV Fleet	CV Non-Fleet
2007-2008	6.0%	8.2%	6.0%
2008-2009	9.3%	4.3%	10.7%
2009-2010	1.5%	6.2%	2.3%
2010-2011	4.5%	6.3%	2.5%
2011-2012	2.9%	2.4%	-2.1%
Average (2007 – 2012)	4.8%	5.5%	3.8%



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Market statistics

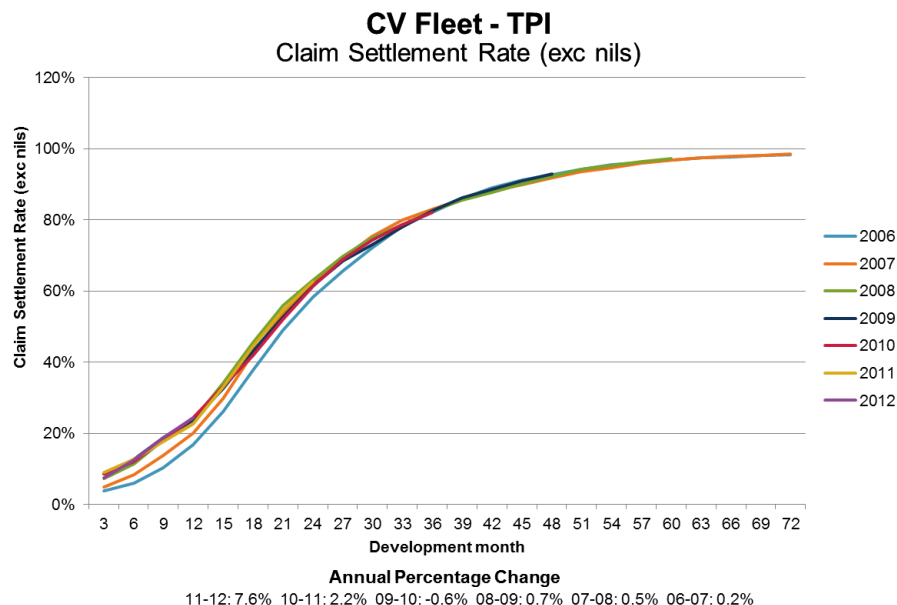
Settlement rate (excluding nils)



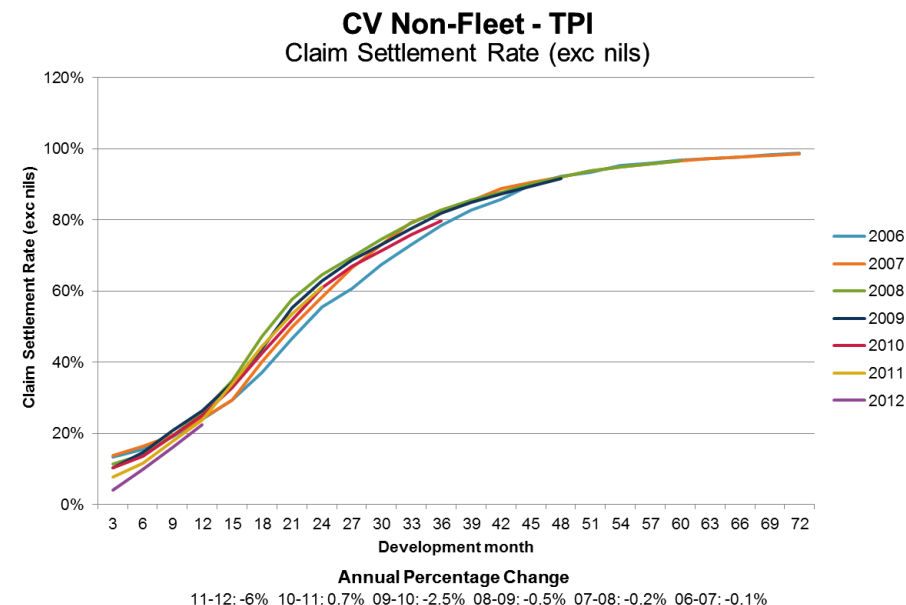
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Settlement rate (excluding nils)



Settlement rates are stable with less MoJ-related distortion than PCC, although there is evidence of speeding up in 2012.



Unlike PCC and Fleet, there is no evidence of anything but progressive slowing of settlement, even post MoJ, with 2012 the slowest year to date
Slowest settlement rates of all classes, at least in first year



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Market statistics

Settlement rate (excluding nils)

Claim Settlement Rate (exc nils) at Latest Development – TPI Capped

Period	PCC	CV Fleet	CV Non-Fleet
2007	97.8%	98.6%	98.6%
2008	96.1%	97.2%	96.5%
2009	91.2%	92.9%	91.7%
2010	81.9%	82.1%	79.8%
2011	65.3%	62.7%	61.2%
2012	25.7%	24.4%	22.4%

Annual Percentage Change

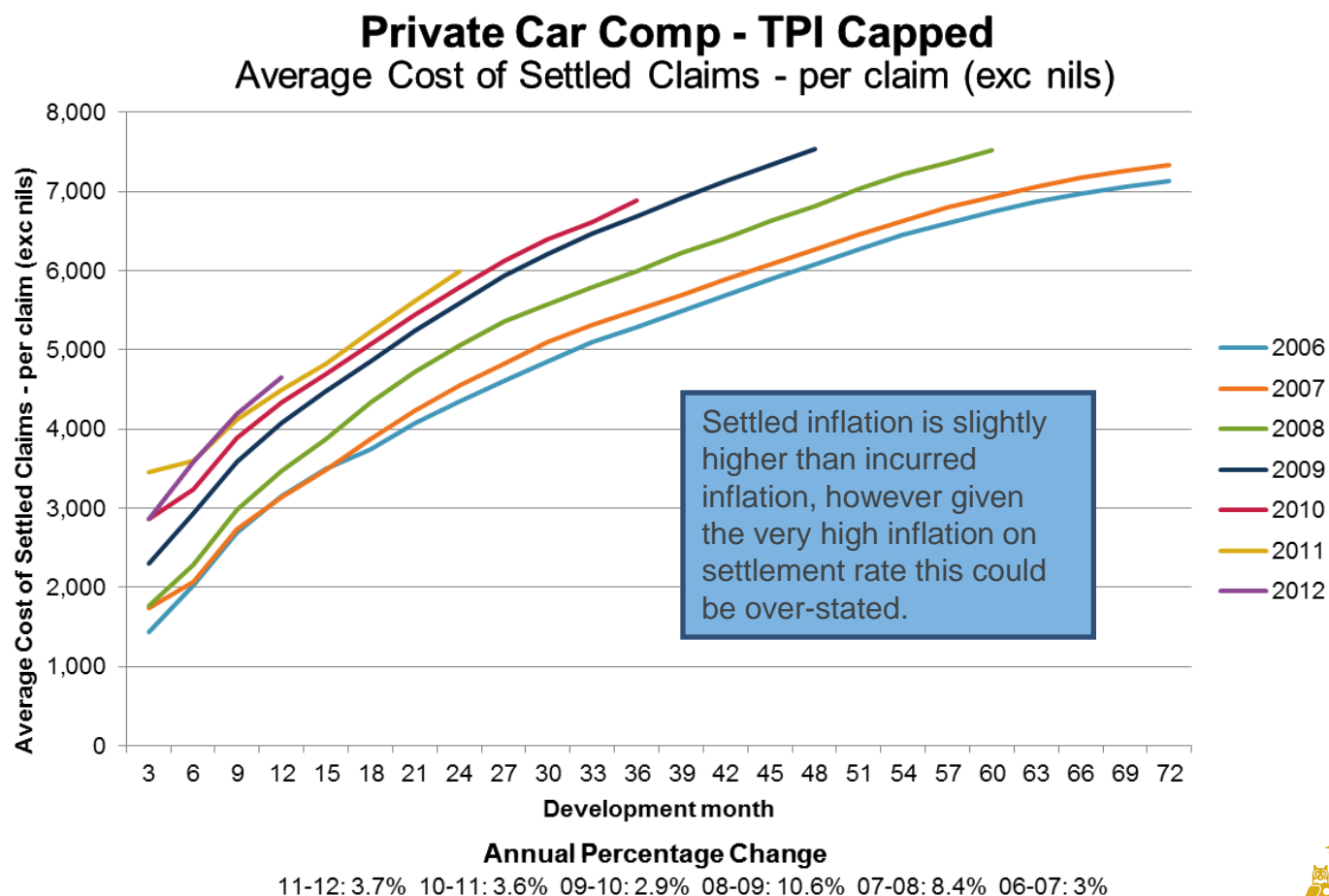
Period	PCC	CV Fleet	CV Non-Fleet
2007-2008	-0.2%	0.5%	-0.2%
2008-2009	-0.6%	0.7%	-0.5%
2009-2010	0.1%	-0.6%	-2.5%
2010-2011	6.4%	2.2%	0.7%
2011-2012	19.8%	7.6%	-6.0%
Average (2007 – 2012)	4.8%	2.0%	-1.7%



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Market statistics

Claim severity (excluding nils)

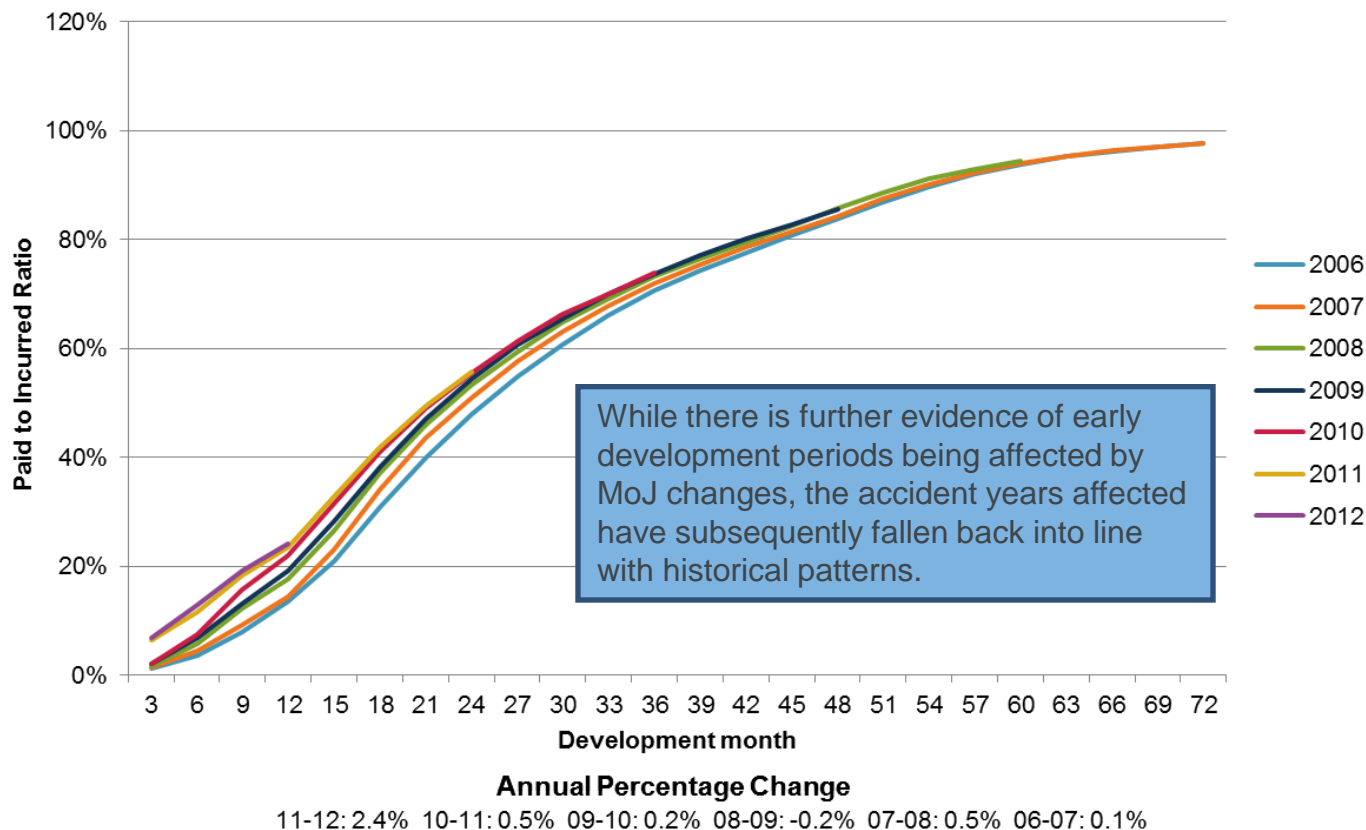


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Market statistics

Paid to Incurred ratio

Private Car Comp - TPI Capped Paid to Incurred Ratio

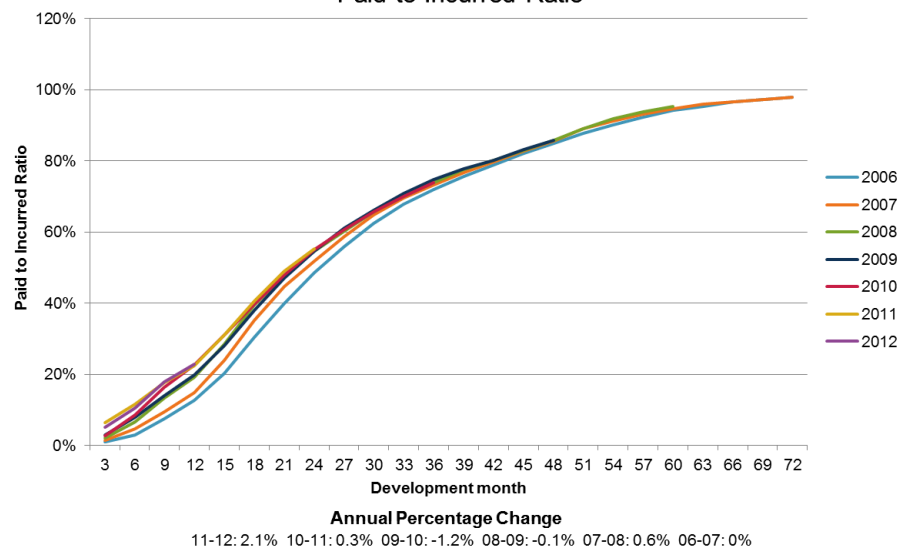


Given that claim settlement rates have increased in the last twelve months, one would expect the ratio of paid to incurred to increase as well. However, this is not seen in the data to the same extent, which suggests that case estimate strength has increased over the same period. Potentially, this could mean that inflation on an incurred basis is overstated.

Market statistics

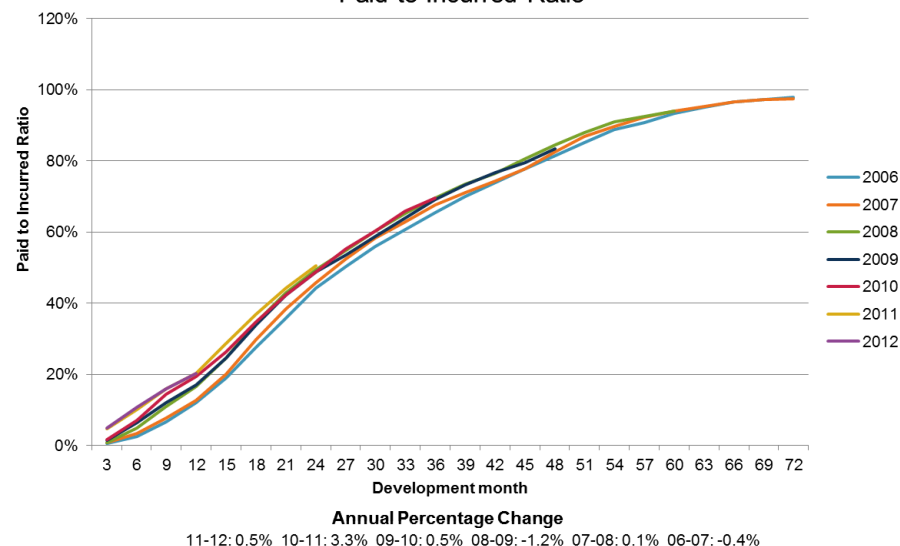
Paid to Incurred ratio

CV Fleet - TPI Capped
Paid to Incurred Ratio



The paid to incurred ratios for Fleet are very similar to PCC but there is no evidence of case estimates strengthening as the increase in settlement rates for Fleet is much lower than for PCC.

CV Non-Fleet - TPI Capped
Paid to Incurred Ratio



Ratios lower than PCC: it is not clear whether this is due to slower payments or stronger case estimates than PCC. Similar inflationary trends to PCC with speeding up of payments post MoJ.



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Market statistics

Paid to Incurred ratio

Paid to Incurred ratio at Latest Development – TPI Capped

Period	PCC	CV Fleet	CV Non-Fleet
2007	97.7%	97.9%	97.6%
2008	94.5%	95.2%	94.1%
2009	85.5%	85.8%	83.4%
2010	73.9%	73.8%	69.5%
2011	55.7%	55.3%	50.5%
2012	24.2%	22.8%	20.3%

Annual Percentage Change

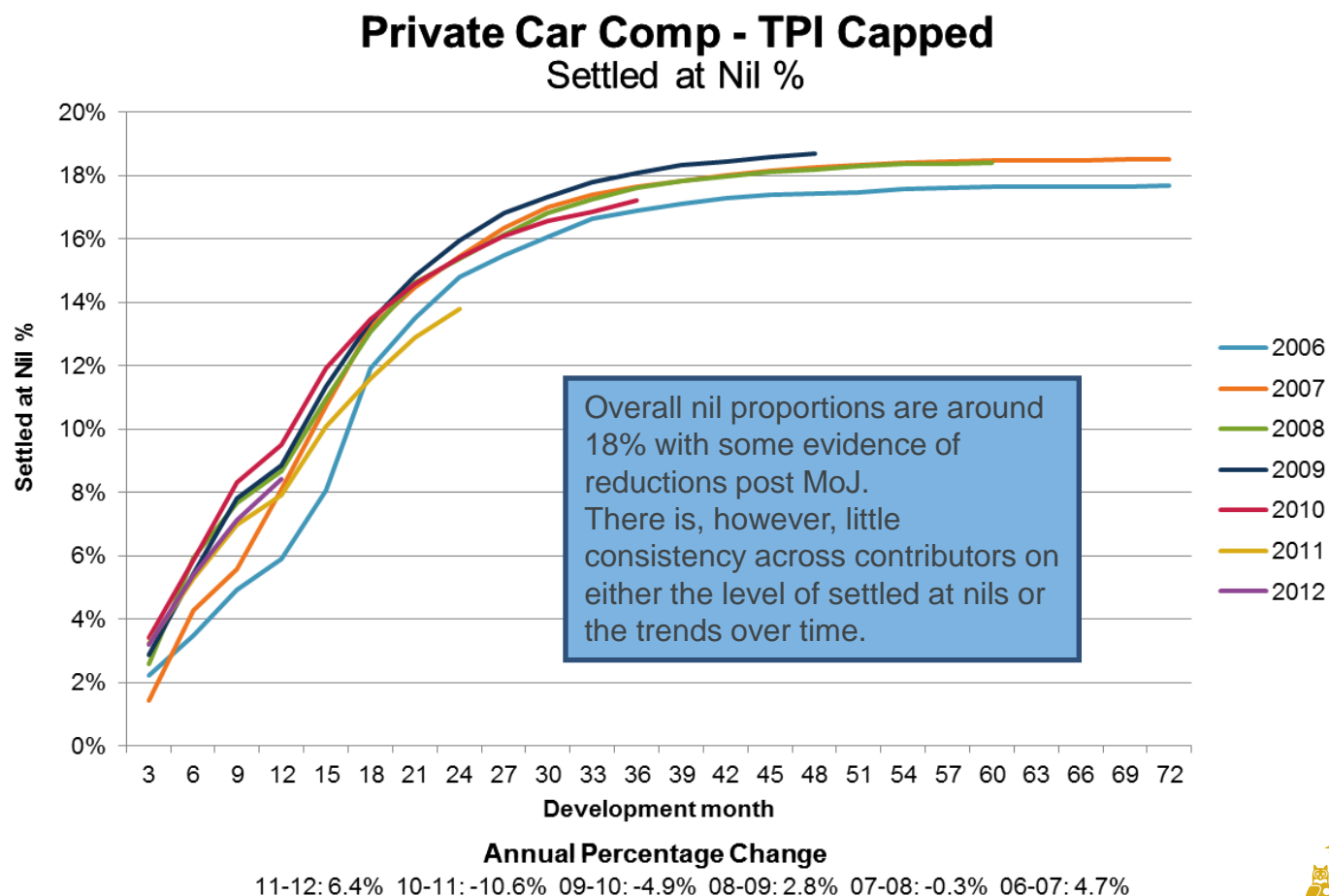
Period	PCC	CV Fleet	CV Non-Fleet
2007-2008	0.5%	0.6%	0.1%
2008-2009	-0.2%	-0.1%	-1.2%
2009-2010	0.2%	-1.2%	0.5%
2010-2011	0.5%	0.3%	3.3%
2011-2012	2.4%	2.1%	0.5%
Average (2007 – 2012)	0.7%	0.3%	0.6%



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Market statistics

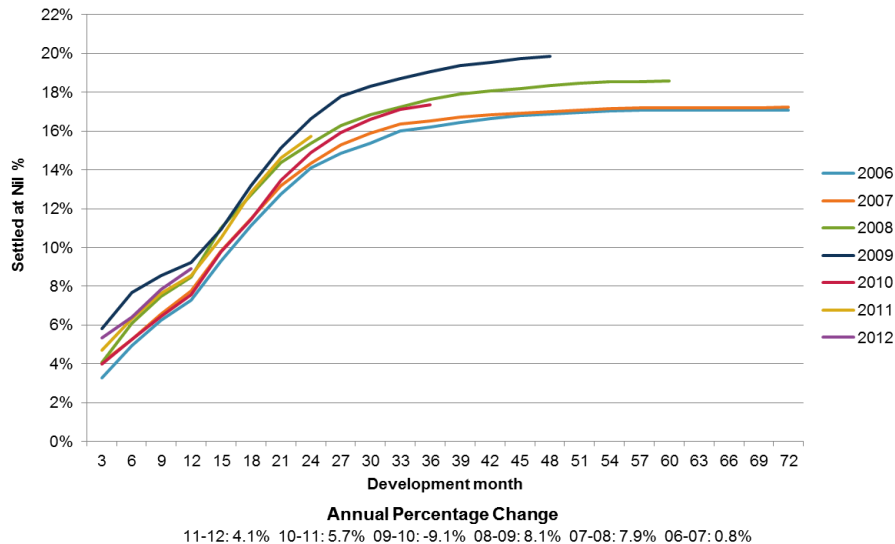
Settled at Nil proportion



Market statistics

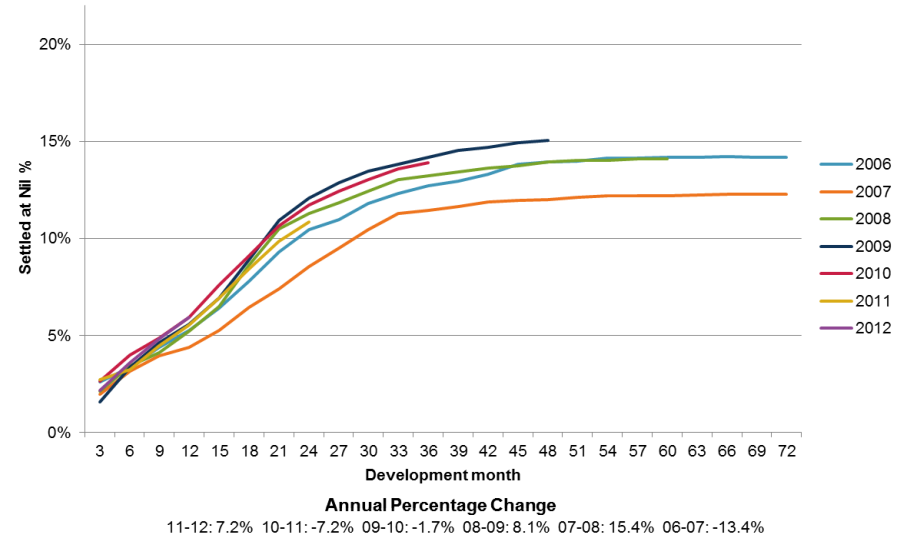
Settled at Nil proportion

CV Fleet - TPI Capped
Settled at Nil %



Similar absolute levels to PCC, and a similar shape. Inflation is not consistent across years, although 2012 and 2011 are in line with each other

CV Non-Fleet - TPI Capped
Settled at Nil %



This is lower than PCC (which is around 18%). There is no inflationary trend discernible other than volatility



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Market statistics

Settled at Nil proportion

Settled at Nil proportion at Latest Development – TPI Capped

Period	PCC	CV Fleet	CV Non-Fleet
2007	18.5%	17.2%	12.3%
2008	18.4%	18.6%	14.1%
2009	18.7%	19.8%	15.1%
2010	17.2%	17.3%	13.9%
2011	13.8%	15.7%	10.9%
2012	8.4%	8.9%	5.9%

Annual Percentage Change

Period	PCC	CV Fleet	CV Non-Fleet
2007-2008	-0.3%	7.9%	15.4%
2008-2009	2.8%	8.1%	8.1%
2009-2010	-4.9%	-9.1%	-1.7%
2010-2011	-10.6%	5.7%	-7.2%
2011-2012	6.4%	4.1%	7.2%
Average (2007 – 2012)	-1.5%	3.1%	4.0%



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Summary for TPI (excl nils) – 1/3

	PCC	Fleet	Non-Fleet
Frequency Inflation	<ul style="list-style-type: none"> 2012 TPI/TPD continues to inflate (more TPI per insured TP accident) at 4.5% this year (down from 19% for 2011; and from the long term average of 10%). As a consequence 2012 TPI inflation continues at 3%. This is slightly lower than for 2010 and 2011. 2010 has seen strong late development, with evidence of back farming, potentially pre LASPO. 	<ul style="list-style-type: none"> TPI/TPD show higher values than PCC, although the inflation in 2010 and 2011 is lower. 2012 Inflation is consistent with PCC levels at 7% TPI frequency has increased by 4.5% in 2012 Fleet has not seen the same drop in accidents (TPD) as PCC in 2010 and hence TPI frequency has deteriorated much more in this period for Fleet than for PCC 	<ul style="list-style-type: none"> TPI/TPD ratios higher than PCC but just lower than Fleet. Inflation lower than PCC or Fleet, and with an unusual reduction in 2012. TPI frequency fell by 6.5% in 2012



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Summary for TPI (excl nils) – 2/3

	PCC	Fleet	Non-Fleet
Severity Inflation	<ul style="list-style-type: none"> TPI 2012 incurred severity at 3% in line with post MOJ levels (lower than last year's equivalent estimate of 6%), and lower than all years average of 4.5%. This now appears less marked. The claimant per claim results, where available, support the aggregate view and indicate that the post MOJ drop could be due to absence of claimant per claim inflation: However this measure of inflation may be over-stated as there is some evidence that case estimate strength may have increased. Although any future back farming of additional claimants post 2009 could increase it. TPI 2012 settled severity at 3.7% (3.5% post MOJ; 5.5% all years), potentially overstated due to further sharp increase in settlement rates. 	<ul style="list-style-type: none"> Incurred TPI severity inflation is 2.4% in 2012. TPI incurred costs are lower than PCC, with similar inflation in 2012. Note that the lowering in inflation in PCC post MOJ is not seen here (other than 2012). 	<ul style="list-style-type: none"> TPI incurred severity is 2.1% lower in 2012 than 2011. Average incurred costs are slightly lower than PCC, but higher than Fleet. Inflation is similar to PCC, with the same drop post MOJ, although lower in 2012 (potentially due to volatility).

Summary for TPI (excl nils) – 3/3

	PCC	Fleet	Non-Fleet
Burning Cost	<ul style="list-style-type: none"> 2012 TPI inflation now sits sub 10% in the range 5-8% 	<ul style="list-style-type: none"> TPI burning cost inflation in the region of 5.5% - 8.5% in 2012 	<ul style="list-style-type: none"> TPI burning cost inflation in the region of - 6 % in 2012
Nil Claims	<ul style="list-style-type: none"> The overall nil proportions is around 18% The level of nil claims has reduced in 2011 and 2012 although this is not consistent across contributors 	<ul style="list-style-type: none"> Similar overall level to PCC 	<ul style="list-style-type: none"> Lower overall level to PCC (around 14%)
Notes to Reserving Actuaries	<ul style="list-style-type: none"> For TPI, no single data source is without issues. We recommend a wide range of methods, with wider data cuts than presented here 	<ul style="list-style-type: none"> Settlement rates are stable with less MoJ-related distortion than PCC. 	<ul style="list-style-type: none"> There is evidence of progressive slowing of settlement, even post MoJ

- 1. Scene Setting**
- 2. Market Statistics: Private Car Comp**
- 3. Market Statistics: Commercial Vehicle**
- 4. Conclusions**



Overall Conclusion

- Inflation continues, albeit at lower levels than before – helped by lower Claimant per Claim inflation in recent years.
- Commercial Vehicles (Fleet and Non Fleet) have not escaped the inflationary trends seen in Private Car Comprehensive TPI capped.
- There is evidence that case estimates have strengthened on TPI, but that they have weakened on TPD, at least for PCC.
- Reserving for both TPD and TPI is best approached using a wide range of methods: any one method is likely to give a distorted view.
- The potential benefits of legislative change in 2013 is not yet in our data and could be benign. However the risk of ongoing late deterioration continues in TPI – seen in the 2010 frequency to date; the uplift in MoJ notifications in March 2013; and the scope (no evidence to date) for claimant per claim inflation.



Overall Conclusion

TPI Capped Inflation

	PCC		CV Fleet		CV Non-Fleet	
	2012	2010 – 2012 Average	2012	2010 – 2012 Average	2012	2010 – 2012 Average
Frequency	~ 3%	~ 4%	~ 4.5%	~ 7%	~ -6.5%	~ 0.5%
Severity	2% to 5%	2% to 5%	1% to 4%	3.5% to 6.5%	-3% to -1%	0% to 3%
Burning Cost	5% to 8%	6% to 9%	5.5% to 8.5%	10.5% to 13.5%	-9.5% to -7.5%	0.5% to 3.5%

TPD Inflation

	PCC		CV Fleet		CV Non-Fleet	
	2012	2010 – 2012 Average	2012	2010 – 2012 Average	2012	2010 – 2012 Average
Frequency	~ -2%	~ -7%	~ -2%	~ -0.5%	~ -3%	~ -6%
Severity	0% to 10%	2% to 6%	4% to 7%	2.5% to 5.5%	-4% to -1%	0% to 3%
Burning Cost	-2% to 8%	-5% to -1%	2% to 5%	2% to 5%	-7% to -4%	-6% to -3%

- Note that estimated inflation rates are derived from comparisons of years at similar points of development. The inflation rates could be distorted by changes in development pattern and hence the 'ultimate' inflation rates could be different from those in the table.

Next Steps

- Further work is being developed for GIRO October 2013
- The scope is intended to include:
 - Projections of TPI claims by size band including large claims
 - Analysis of heads of damage for TPI and TPD
 - Further analysis of non-insurance data to investigate reasons behind trends over time

