

Open Forum: The Third Party Working Party

David Brown, John Berry, Neil Wilson



**The full results
of the 2011 study of
UK motor insurance**

7 March 2012

Acknowledgements

Working Party:

David Brown (Chair)
John Berry
Simon Black
Nigel Carpenter
Kyveli Charsouli
Leon Jones
Grant Mitchell
Anita Morton
Niraj Shah
David Slater
Neil Wilson
Neil Wilson

Data contributors:

Acromas
Allianz
Aviva
AXA
The Cooperative
Insurance
esure
Groupama
LV
NFU
Provident
RBS Insurance
RSA
Zurich

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Sylvie Le Delliou,
Tom McDonald

RBSI: Oliver
Wallace,
Nicola Greene,
Matt Grist

Aviva: Philip Paston,
James Ashdown

Industry Results from Third Party Working Party

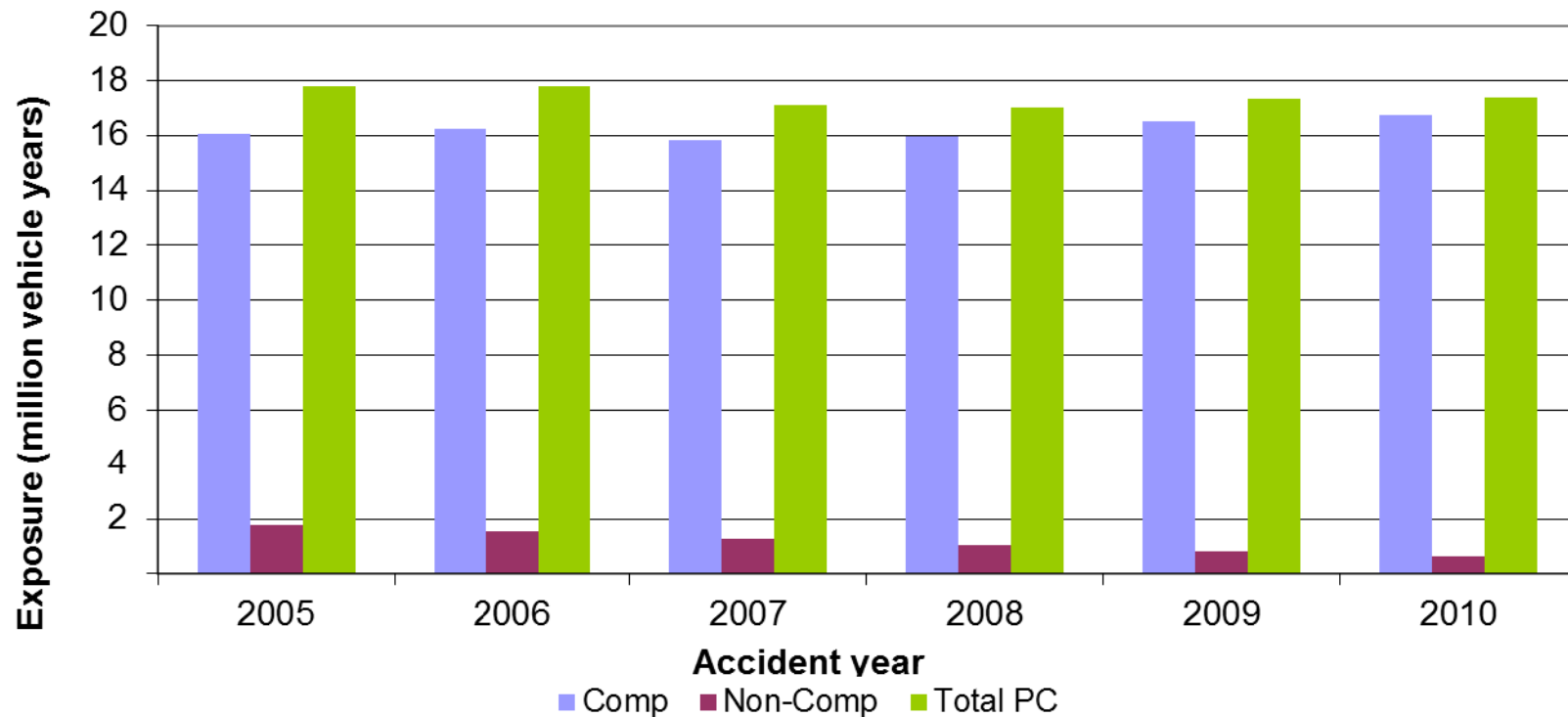
- Second Industry Study with much wider scope than First Study
- A significant number of insurers contributed a vast array of information on third party claims (injury and property damage) that made this happen
- In total, over 85% of FSA regulated companies (measured by 2009 premium volumes) contributed, 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
- Data provided as at 31 December 2010

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1. Background to Motor Claims Environment
2. Claims Inflation and Development for TPD/Capped TPI
 - a. Private Car Comprehensive
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5. New Developments

Appendices

Comp Exposure up over time: Non-Comp declining strongly

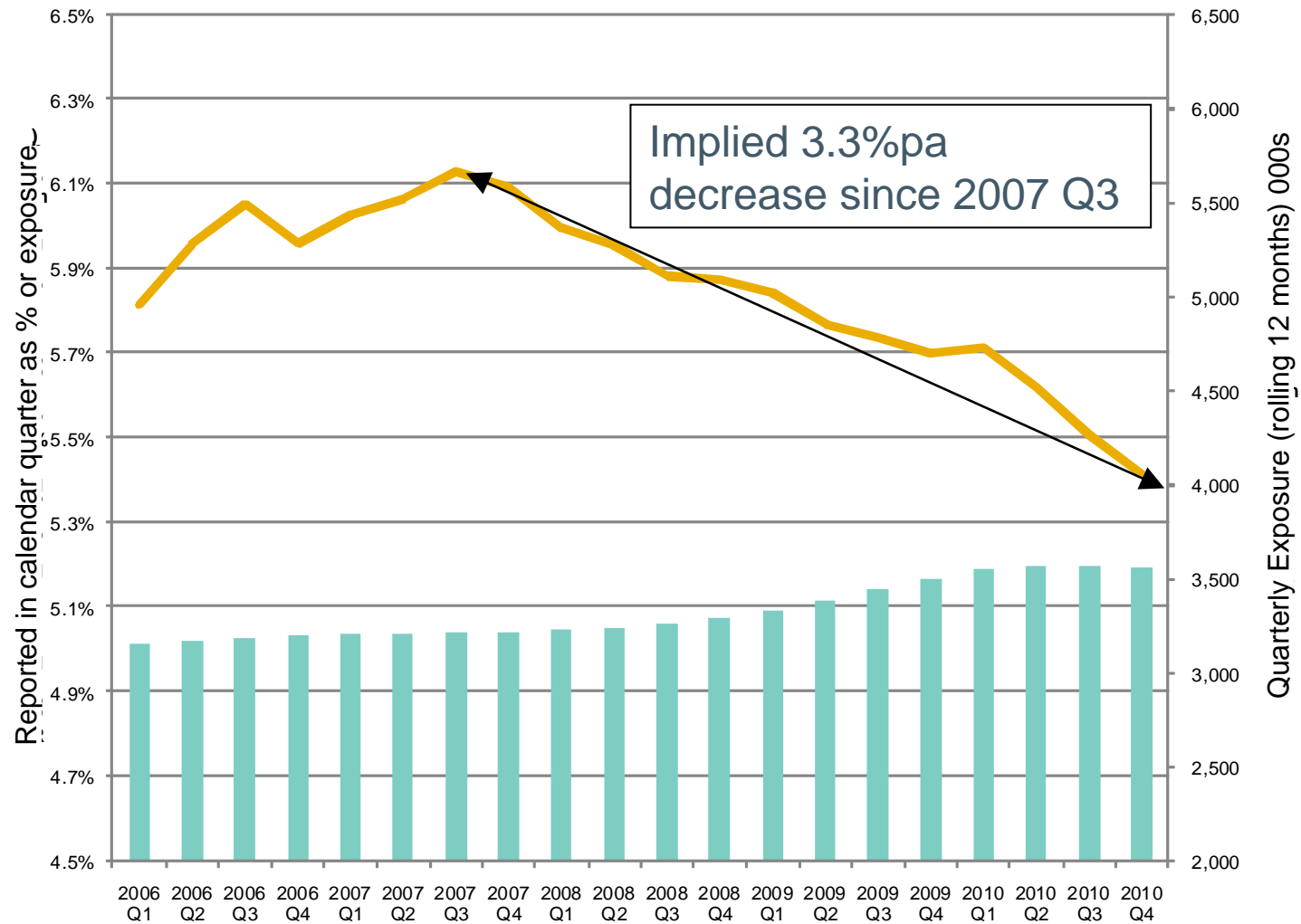


Since 2005

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

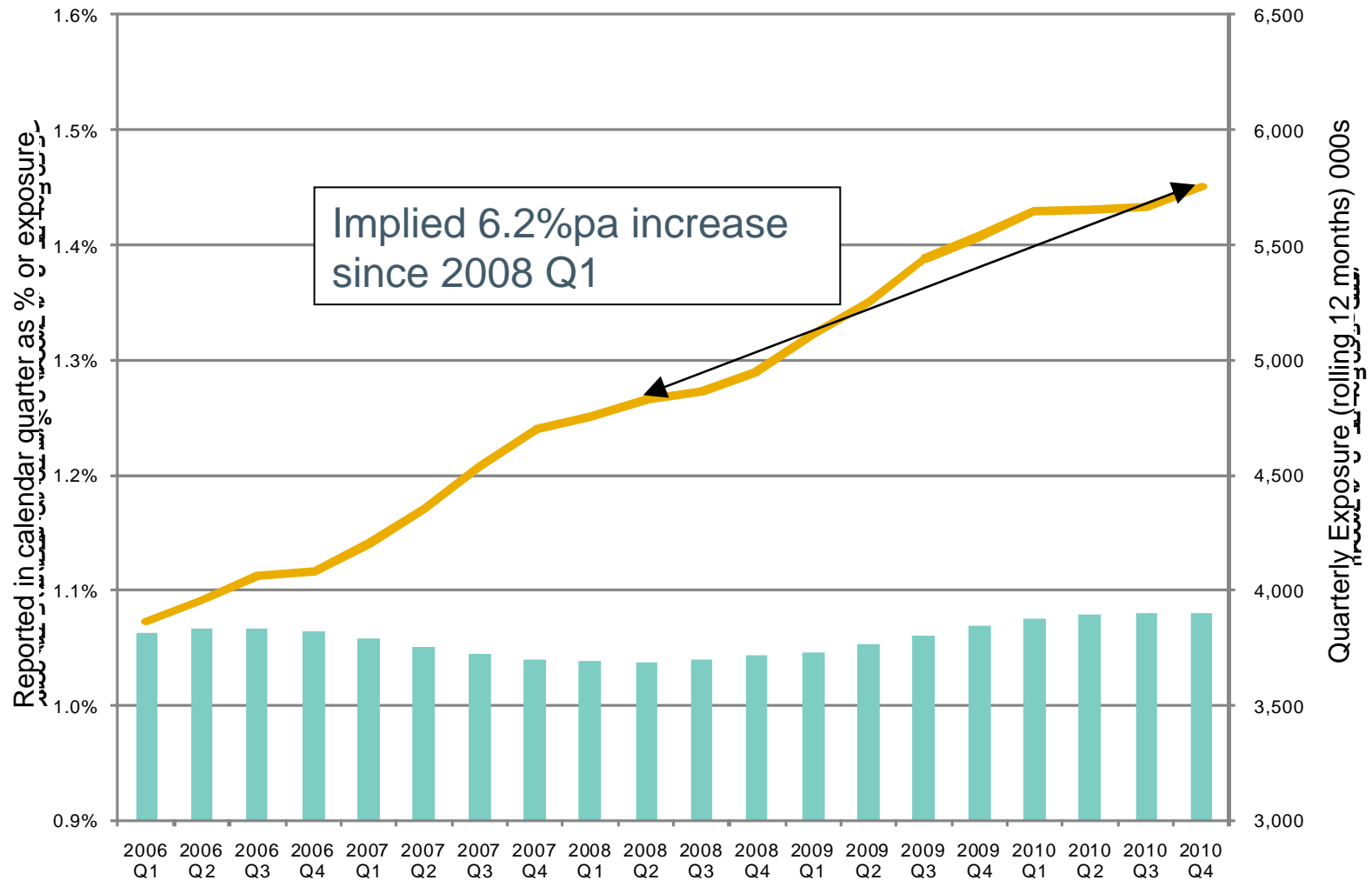
Comprehensive

TPD - Reported in calendar period as % of exposure (rolling 12 month)



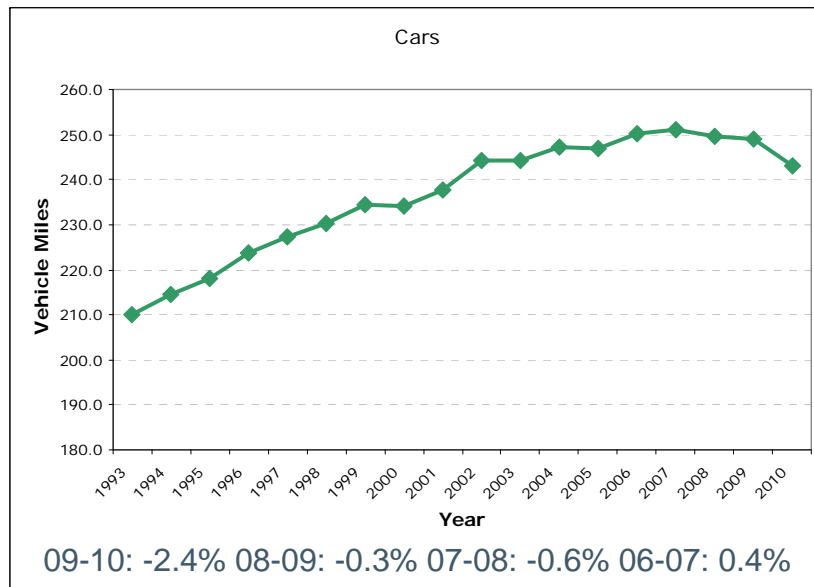
Comprehensive

TPI Capped - Reported in calendar period as % of exposure (rolling 12 month)

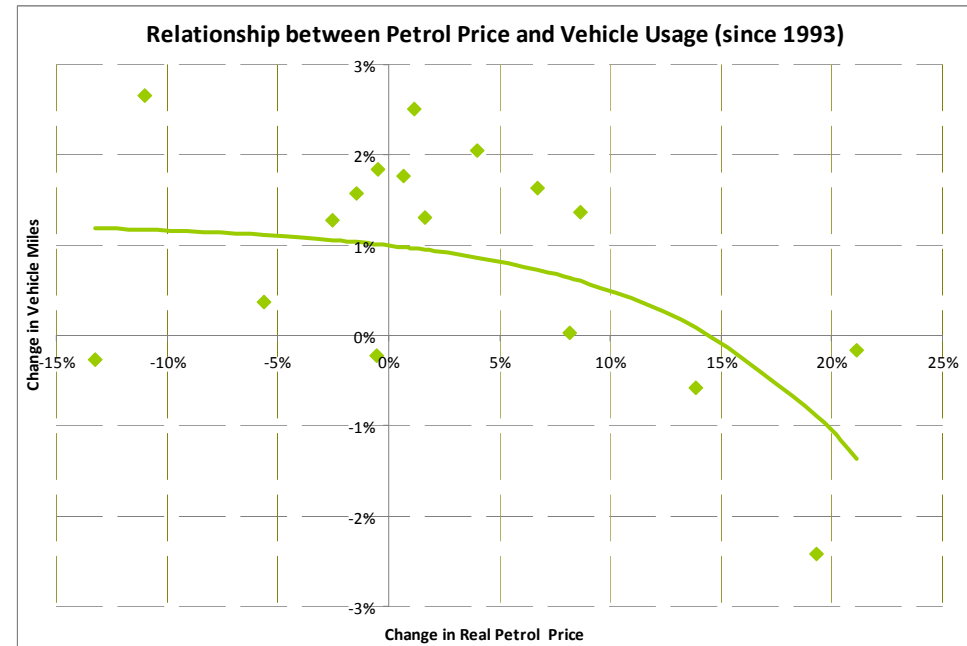


Road Usage Data

- There is a broad correlation between road usage and changes in petrol prices – with greater sensitivity to increases than decreases

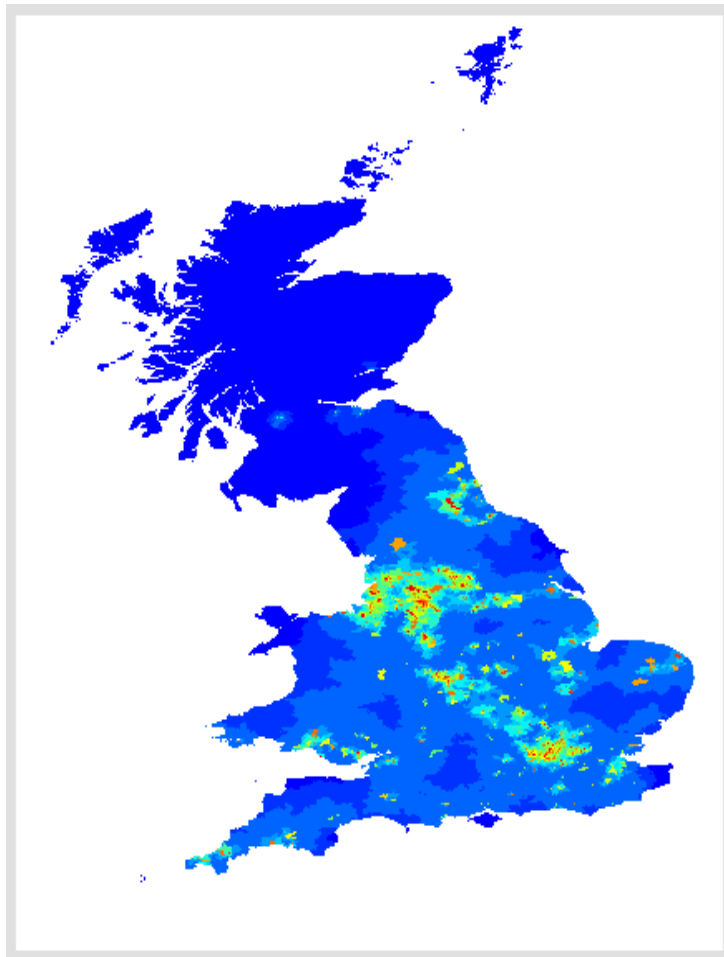


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- Road usage has been dropping since 2007
- With a more pronounced drop in 2010 of 2.4%

CMCs: growth continues; and turnover is up 50%



Turnover to Nov 2010 increased by 50% to £377m.

Information on counts of authorised CMCs has challenges in terms of allowing for cancelling authorisation - so there are caveats on the following findings given that we have not been able to obtain regional turnover data.

But it would appear that:

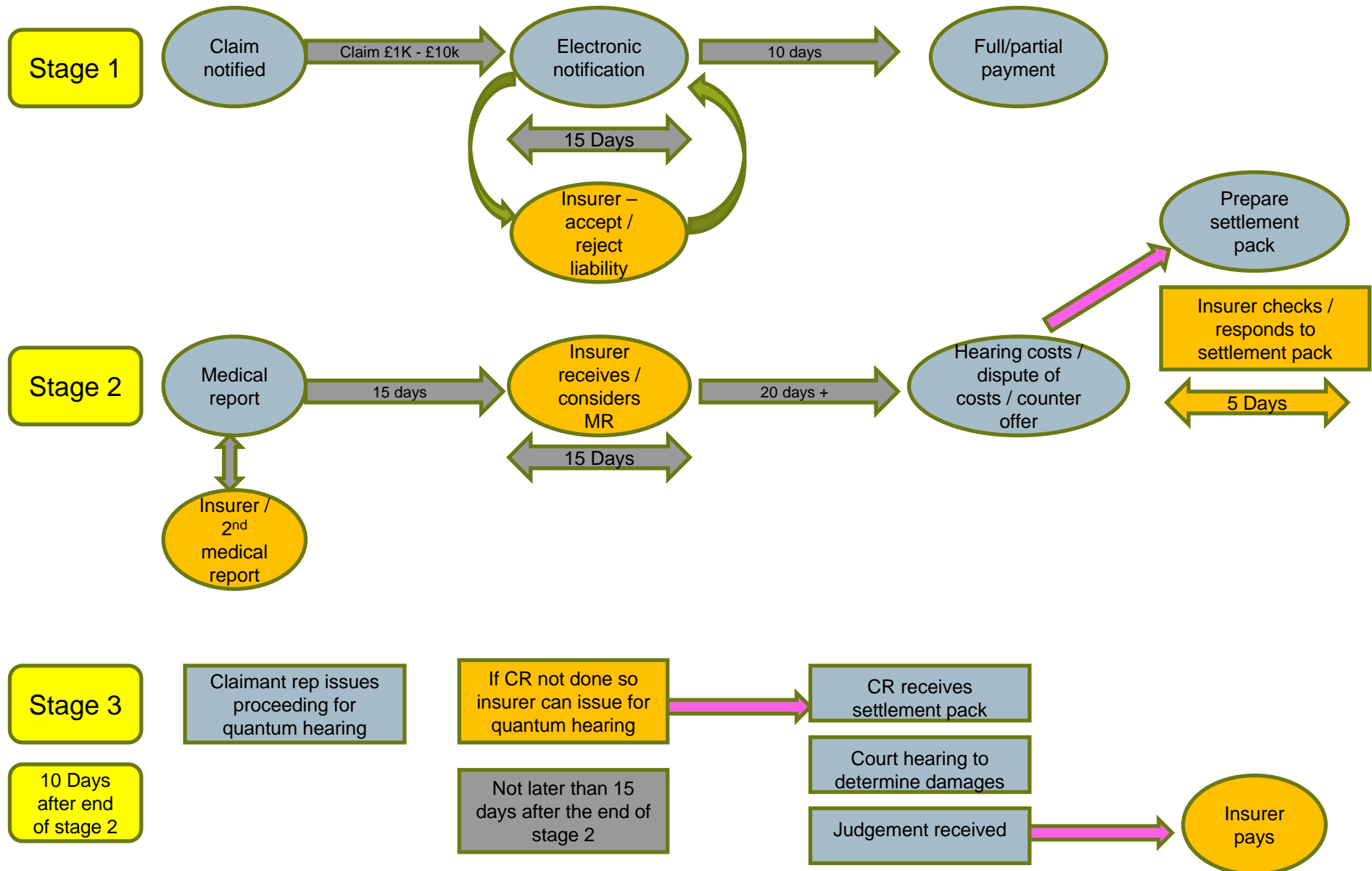
- The greatest increases have been in the areas that already had the greatest concentrations of CMCs – specifically Manchester and Liverpool.
- But some other areas have shown significant percentage increases but from a much lower base.

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
- A reduced, fixed schedule of legal fees sets an expectation that solicitors may have less capacity to pay referral fees to CMCs.

However, Insurers have some concerns

The New MOJ Process (Claims after 30/04/2010)



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Notes on Data and Analysis

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

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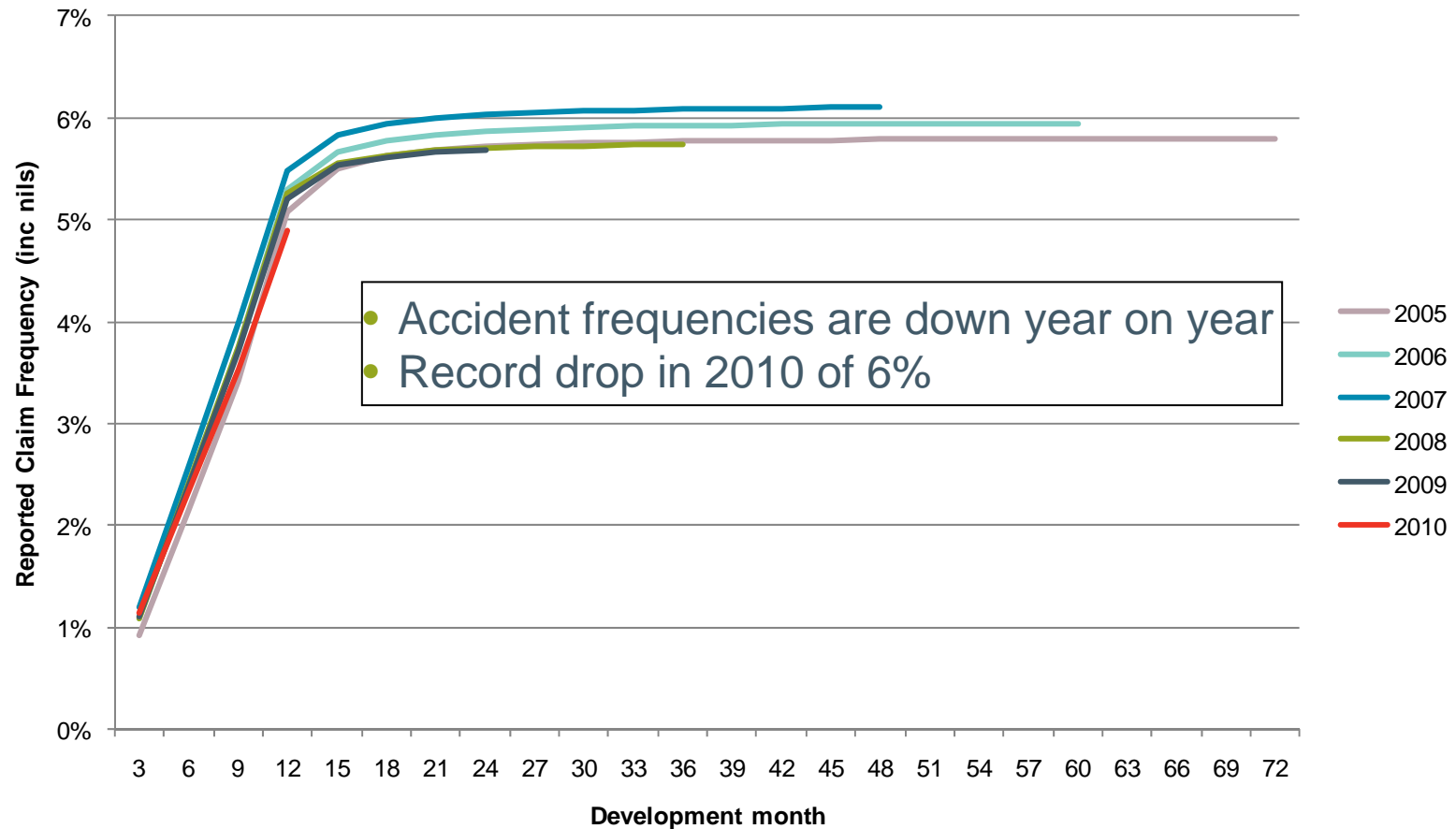
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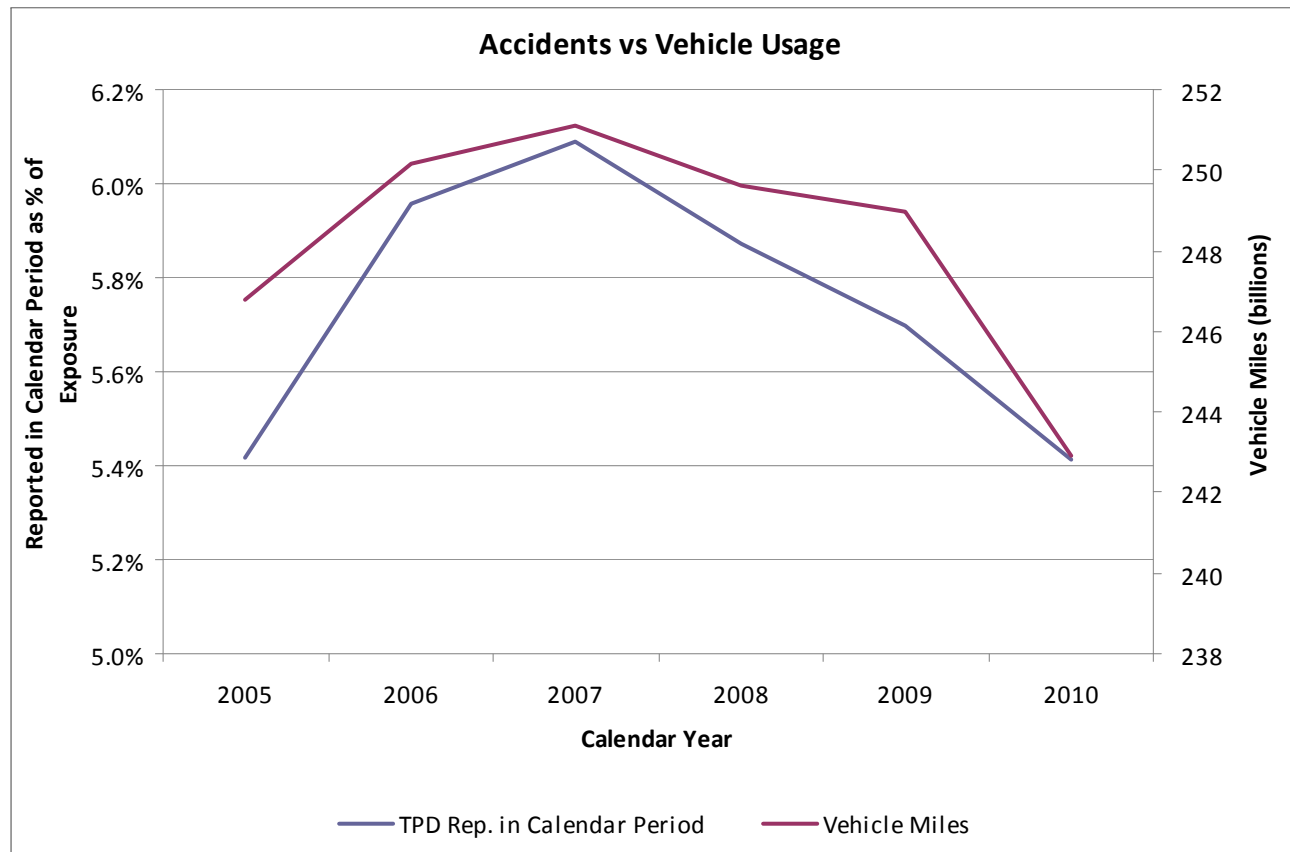
2010 Statistic

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



Inflation Rates
09-10: -6.3% 08-09: -0.3% 07-08: -5.6% 06-07: 2.8% 05-06: 2.7%

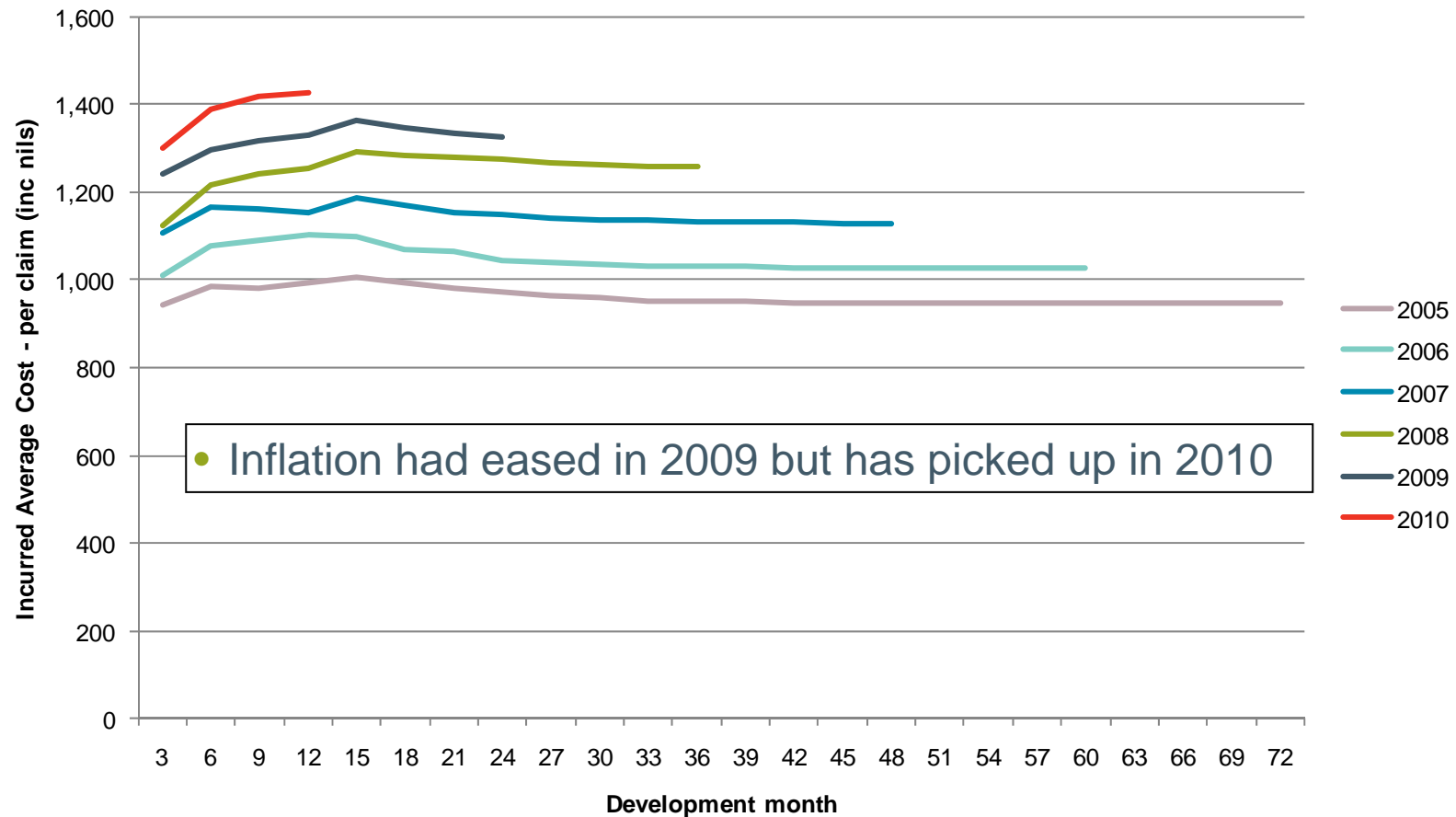
Unsurprisingly there is a clear relationship between road usage and the number of accidents



2010 Statistic

Private Car Comp - All Distribution Channels - TPD

Incurred Average Cost - per claim (inc nils)

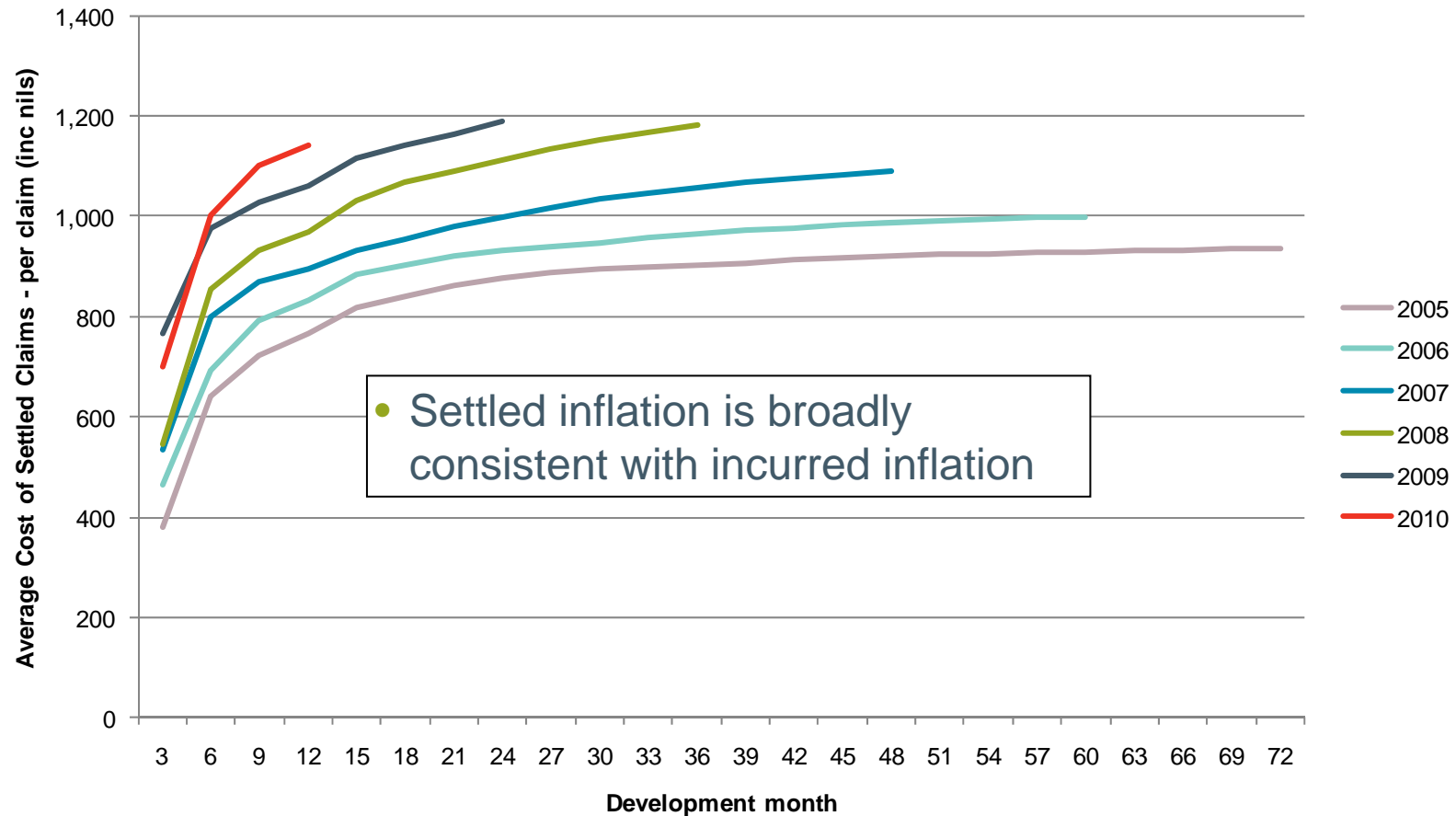


Inflation Rates
09-10: 7.2% 08-09: 4.1% 07-08: 10.9% 06-07: 9.9% 05-06: 8.3%

2010 Statistic

Private Car Comp - All Distribution Channels - TPD

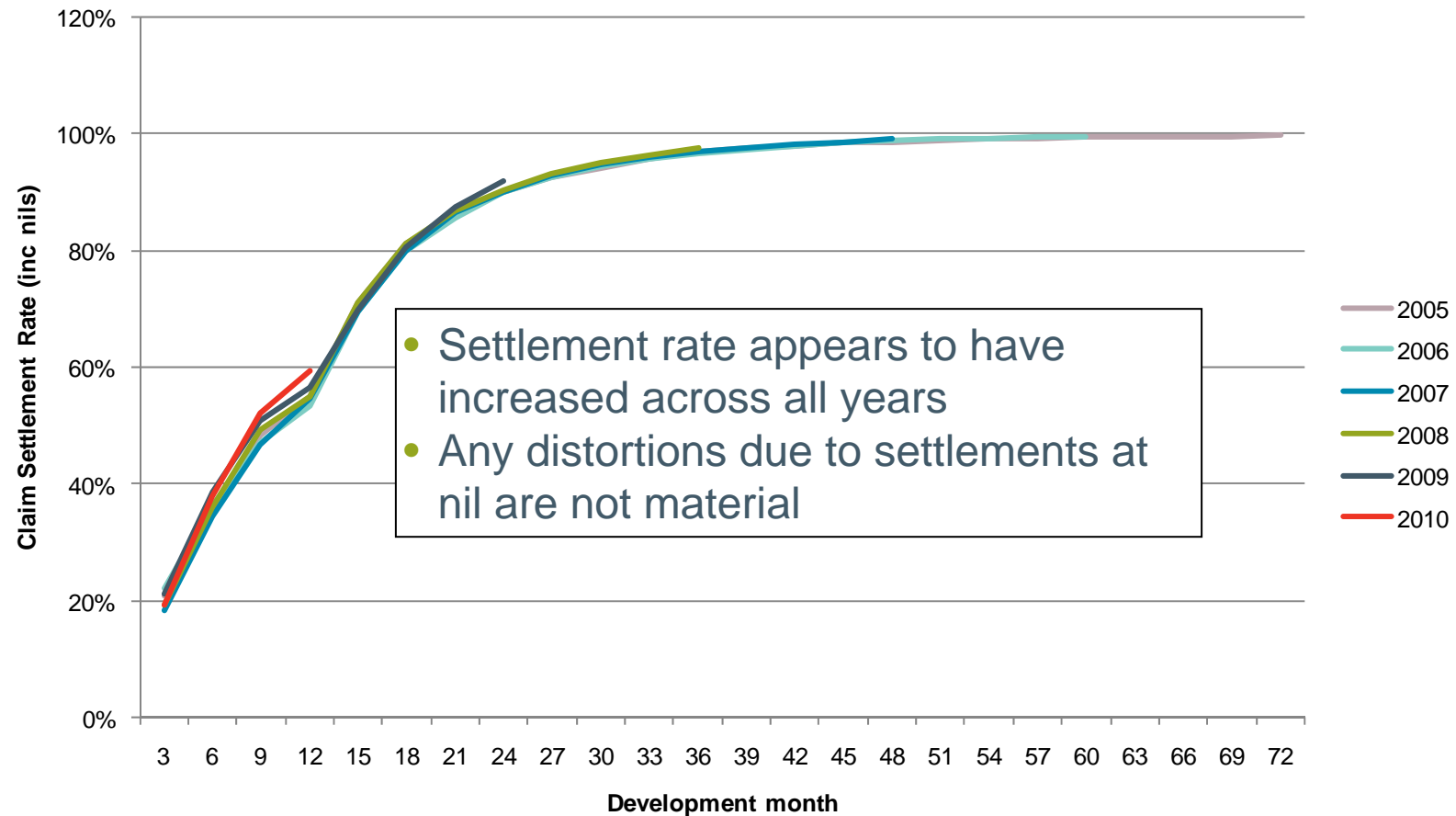
Average Cost of Settled Claims - per claim (inc nils)



Inflation Rates
09-10: 7.6% 08-09: 7% 07-08: 12% 06-07: 10.2% 05-06: 7.5%

2010 Statistic

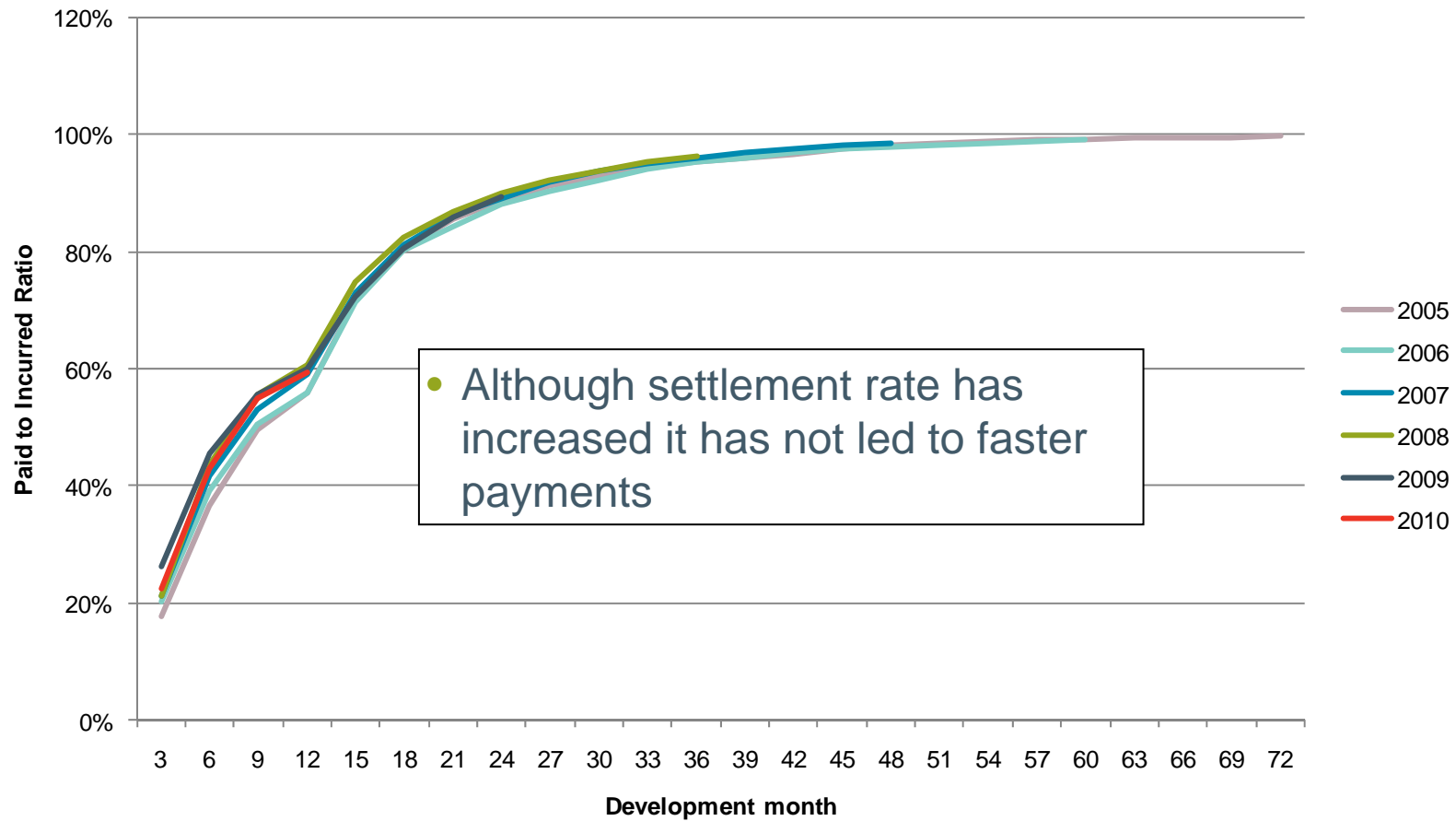
Private Car Comp - All Distribution Channels - TPD Claim Settlement Rate (inc nils)



Inflation Rates
09-10: 5.1% 08-09: 1.4% 07-08: 0.7% 06-07: 0.3% 05-06: 0.2%

2010 Statistic:

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



Inflation Rates
09-10: -1.3% 08-09: -0.6% 07-08: 0.2% 06-07: 0.7% 05-06: -0.1%

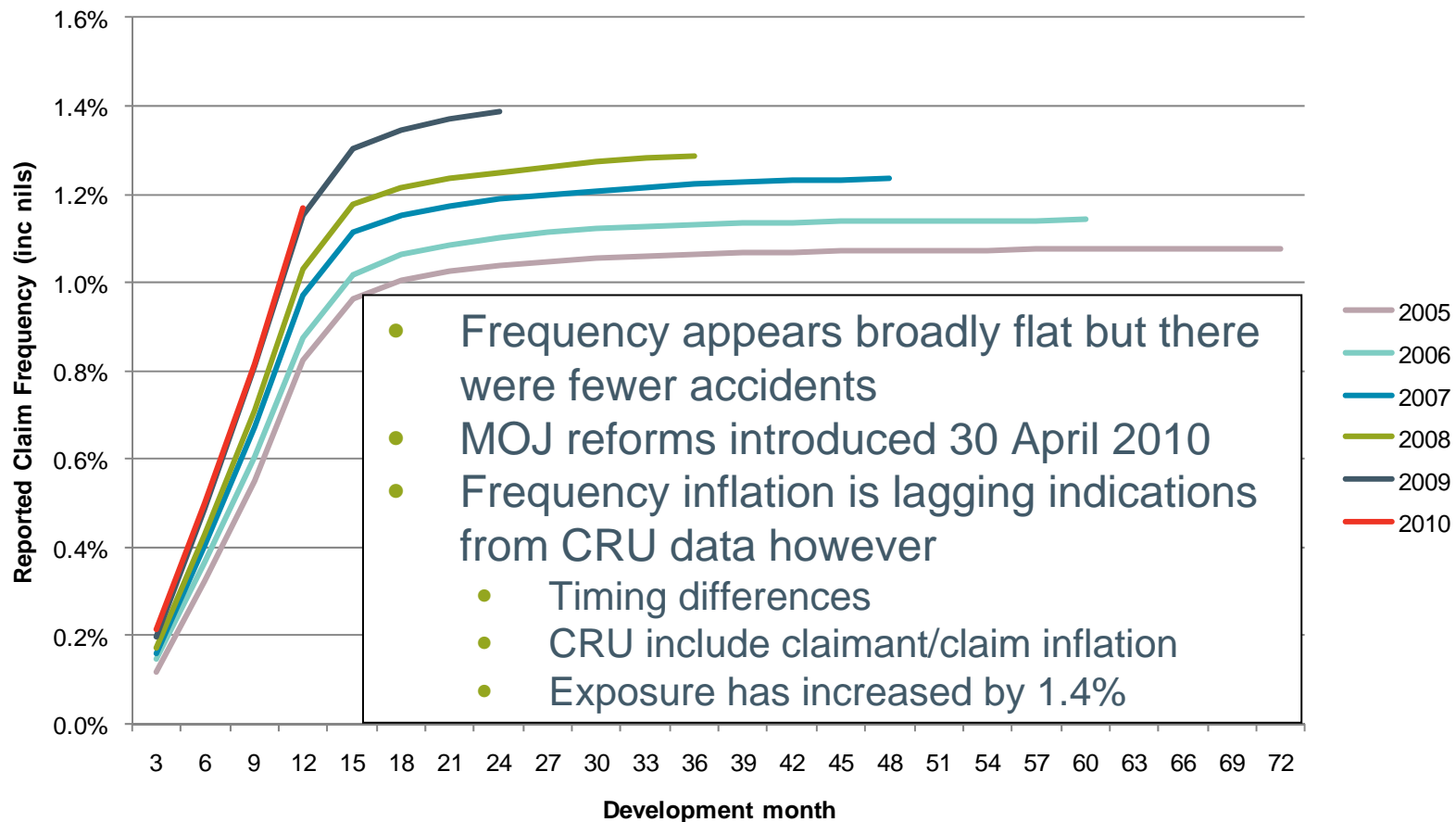
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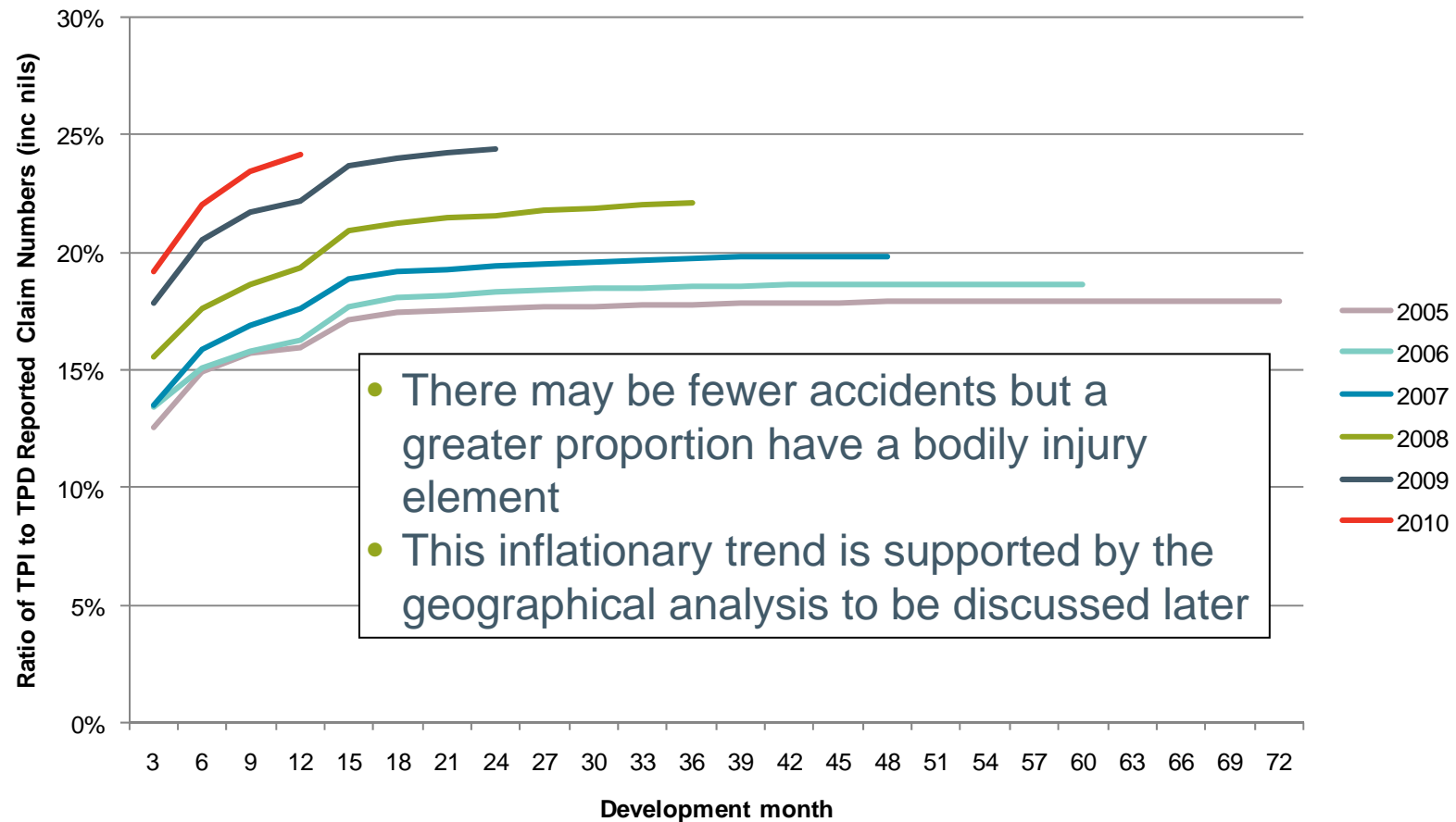
2010 Statistic

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



2010 Statistic

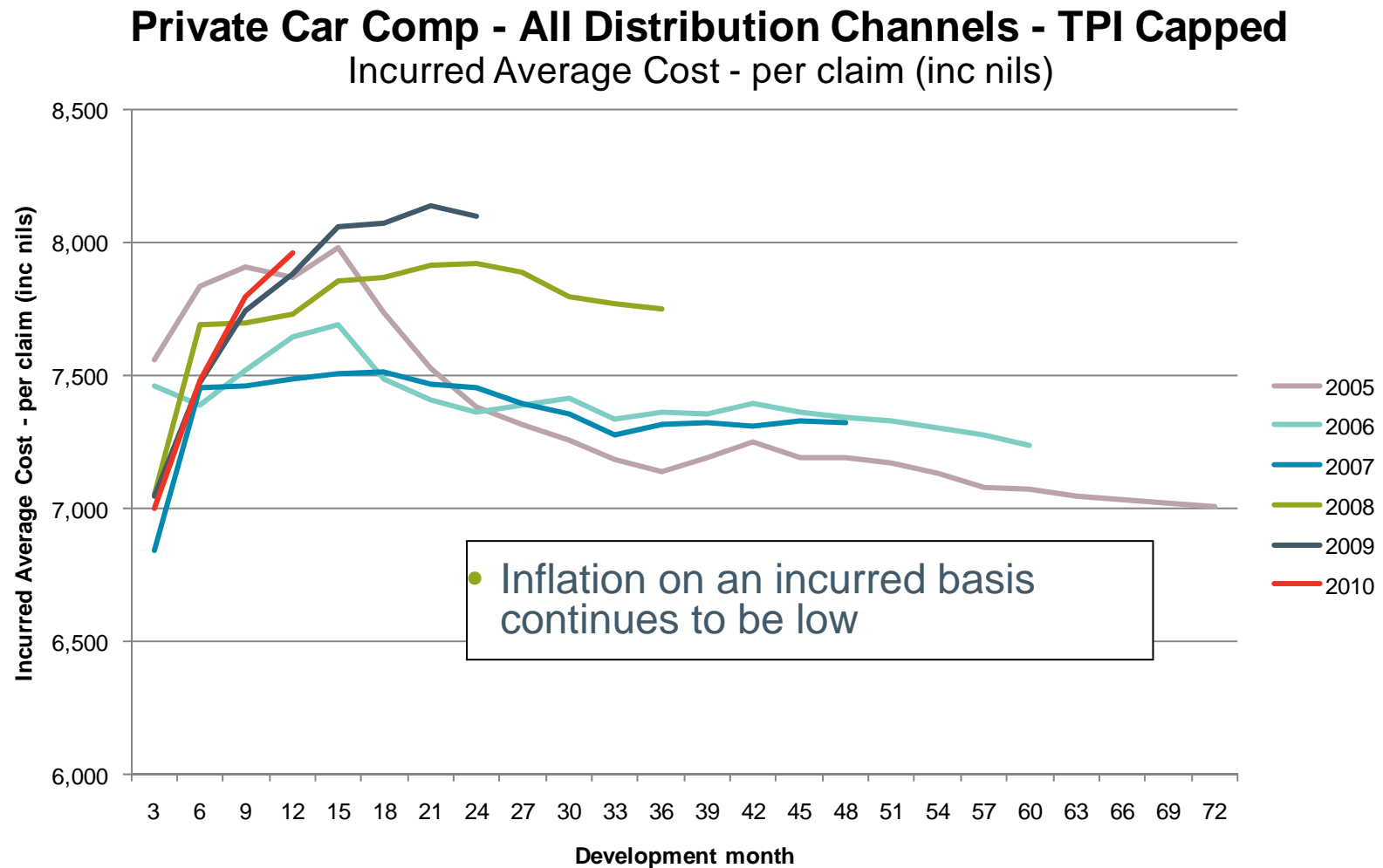
Private Car Comp - All Distribution Channels Ratio of TPI to TPD Reported Claim Numbers (inc nils)



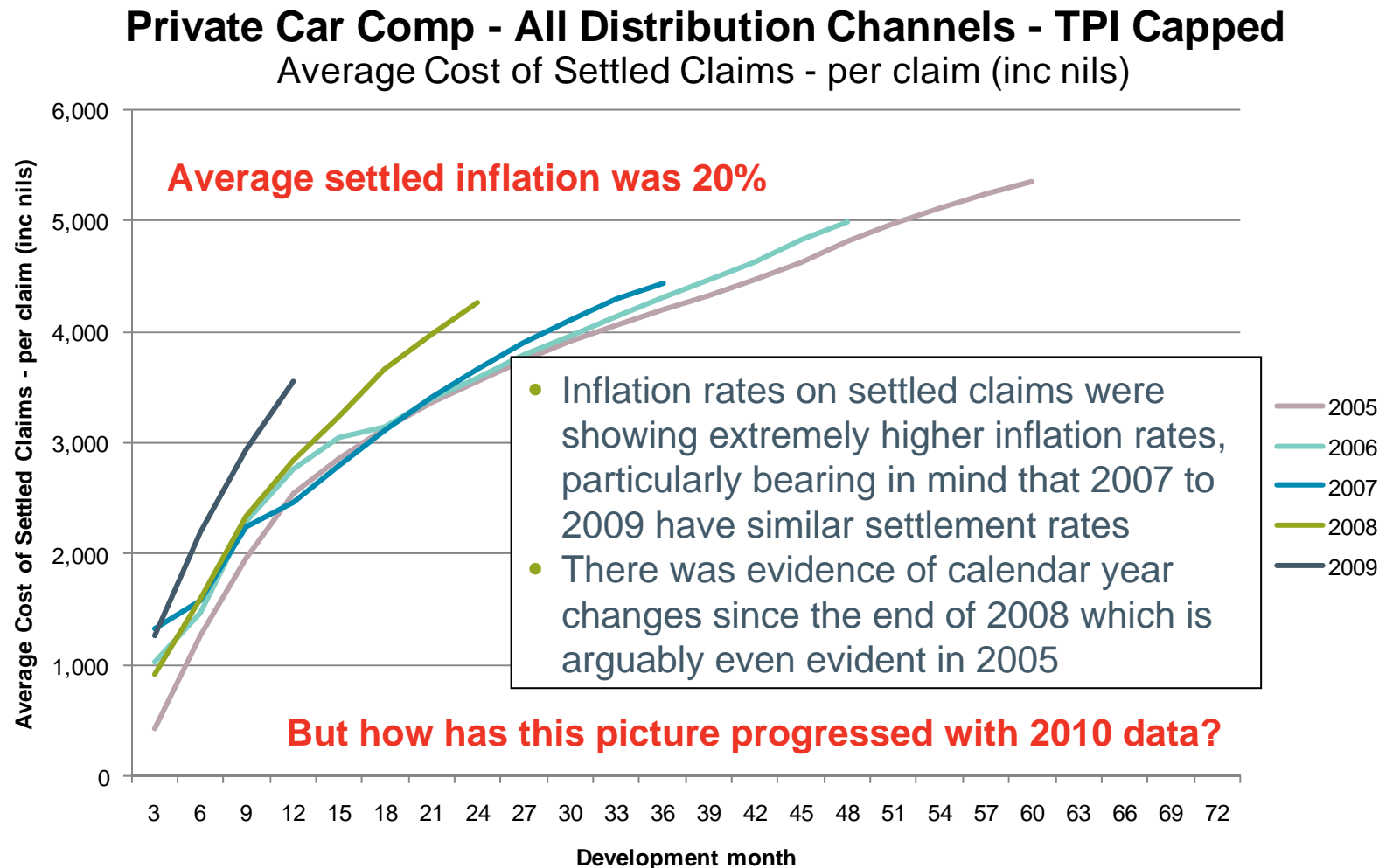
- There may be fewer accidents but a greater proportion have a bodily injury element
- This inflationary trend is supported by the geographical analysis to be discussed later

Inflation Rates
09-10: 9.1% 08-09: 13.2% 07-08: 12% 06-07: 6.5% 05-06: 4.1%

2010 Statistic



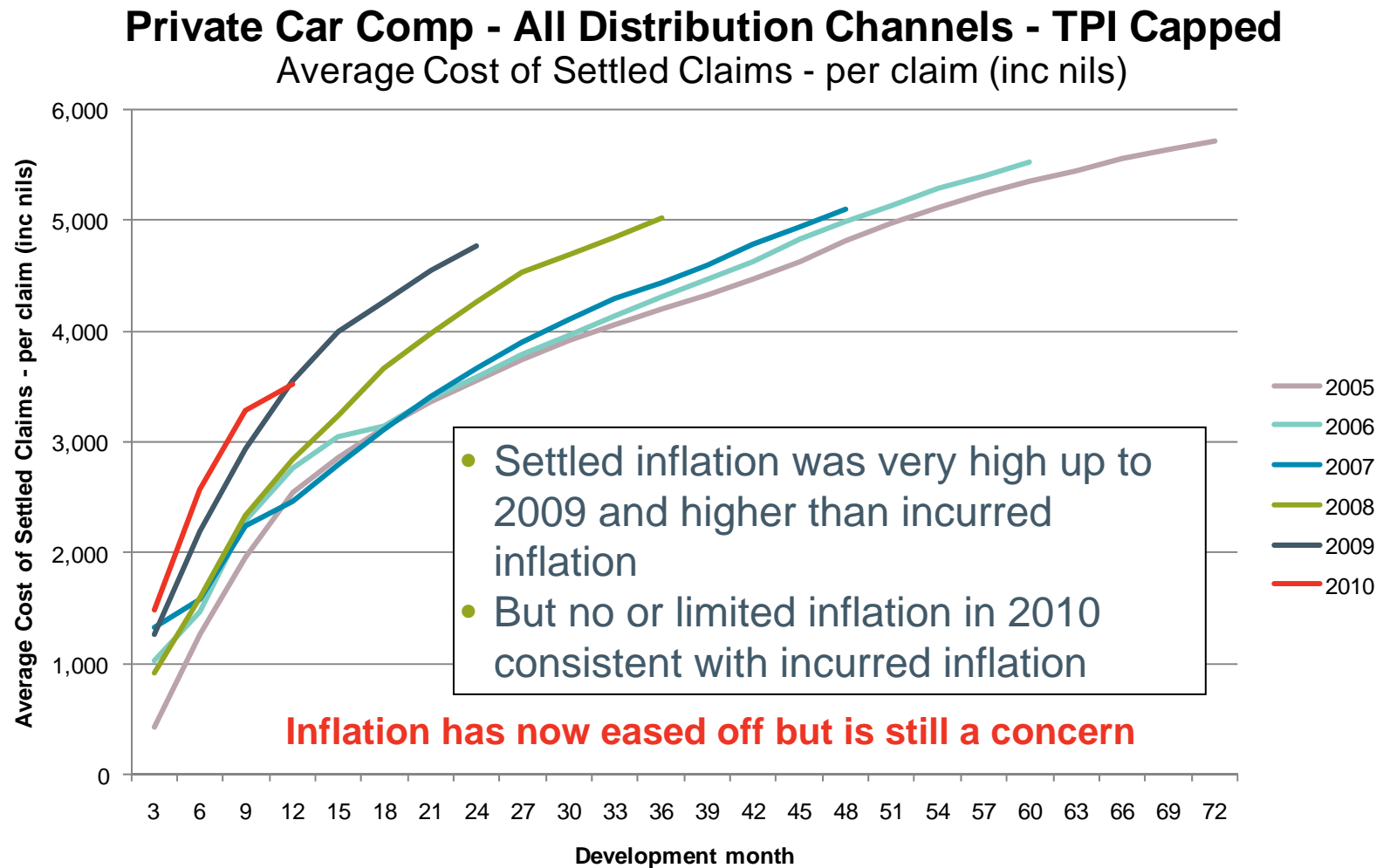
2009 Statistic (using latest data)



Inflation Rates

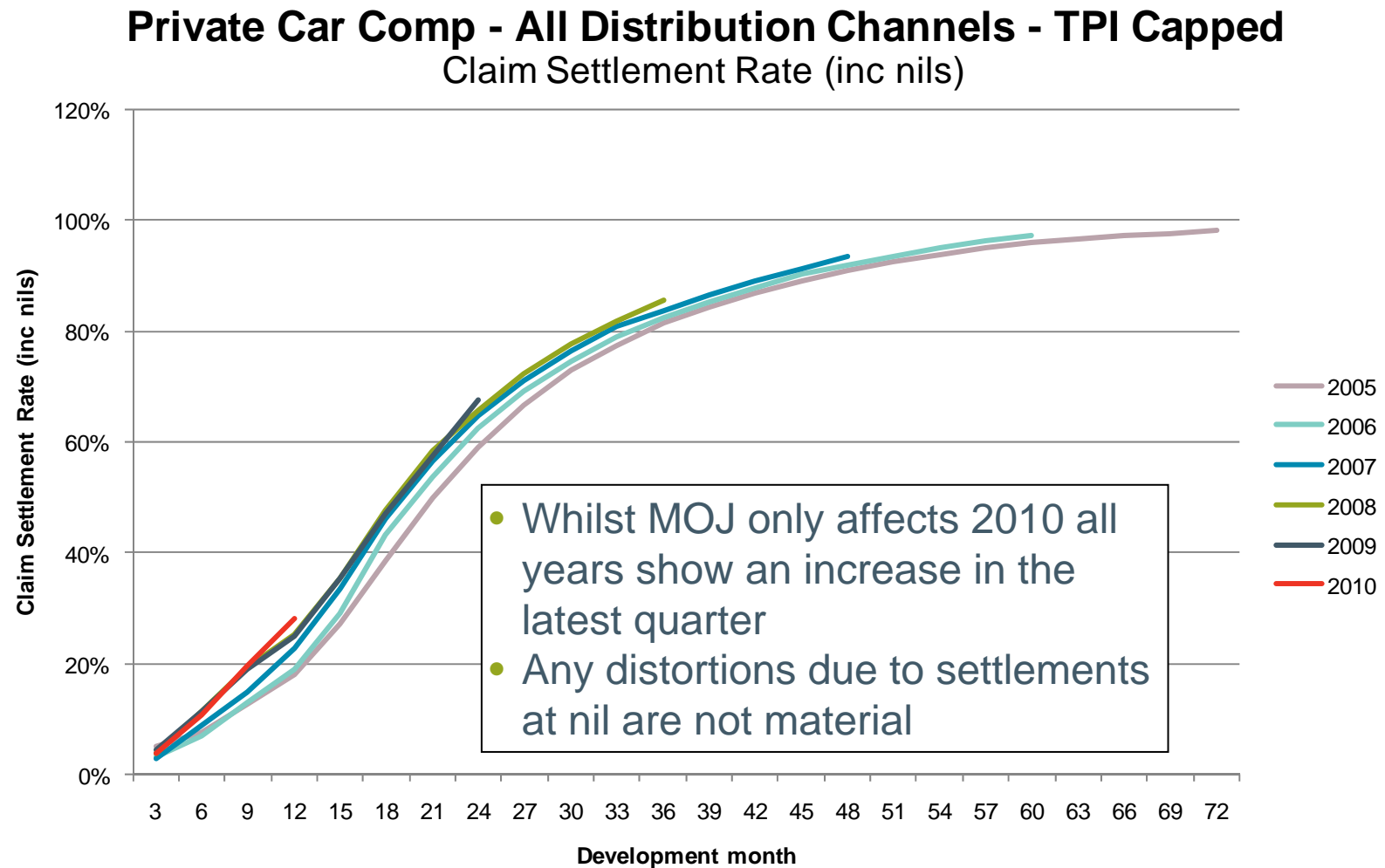
08-09: 25.2% 07-08: 16.1% 06-07: 3% 05-06: 3.7%

2010 Statistic



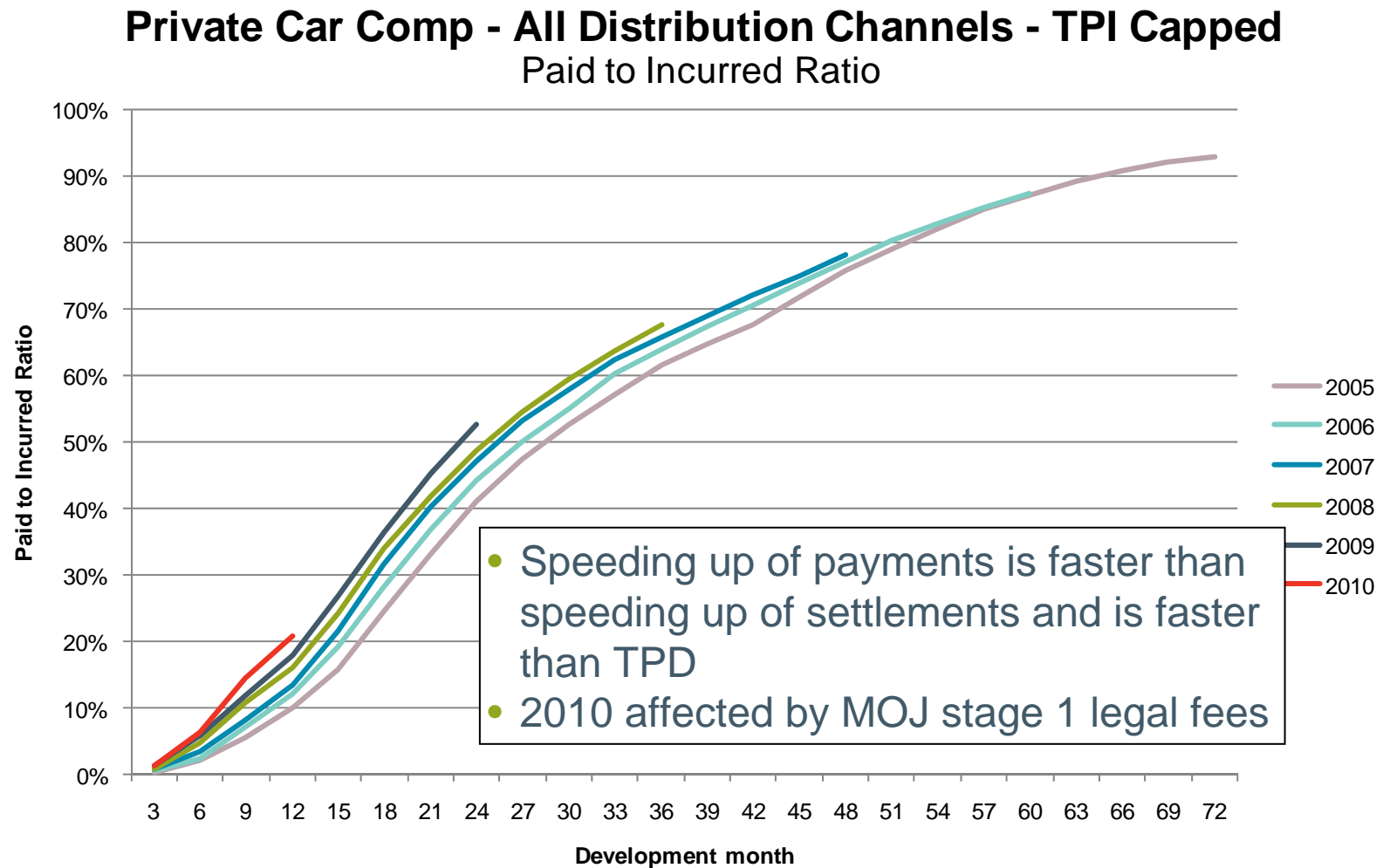
Inflation Rates
09-10: -1% 08-09: 11.7% 07-08: 12.9% 06-07: 2.3% 05-06: 3.3%

2010 Statistic



Inflation Rates
09-10: 11.7% 08-09: 3% 07-08: 2.2% 06-07: 1.6% 05-06: 1.3%

2010 Statistic



Inflation Rates
09-10: 16% 08-09: 7.9% 07-08: 2.7% 06-07: 1.5% 05-06: 0.4%

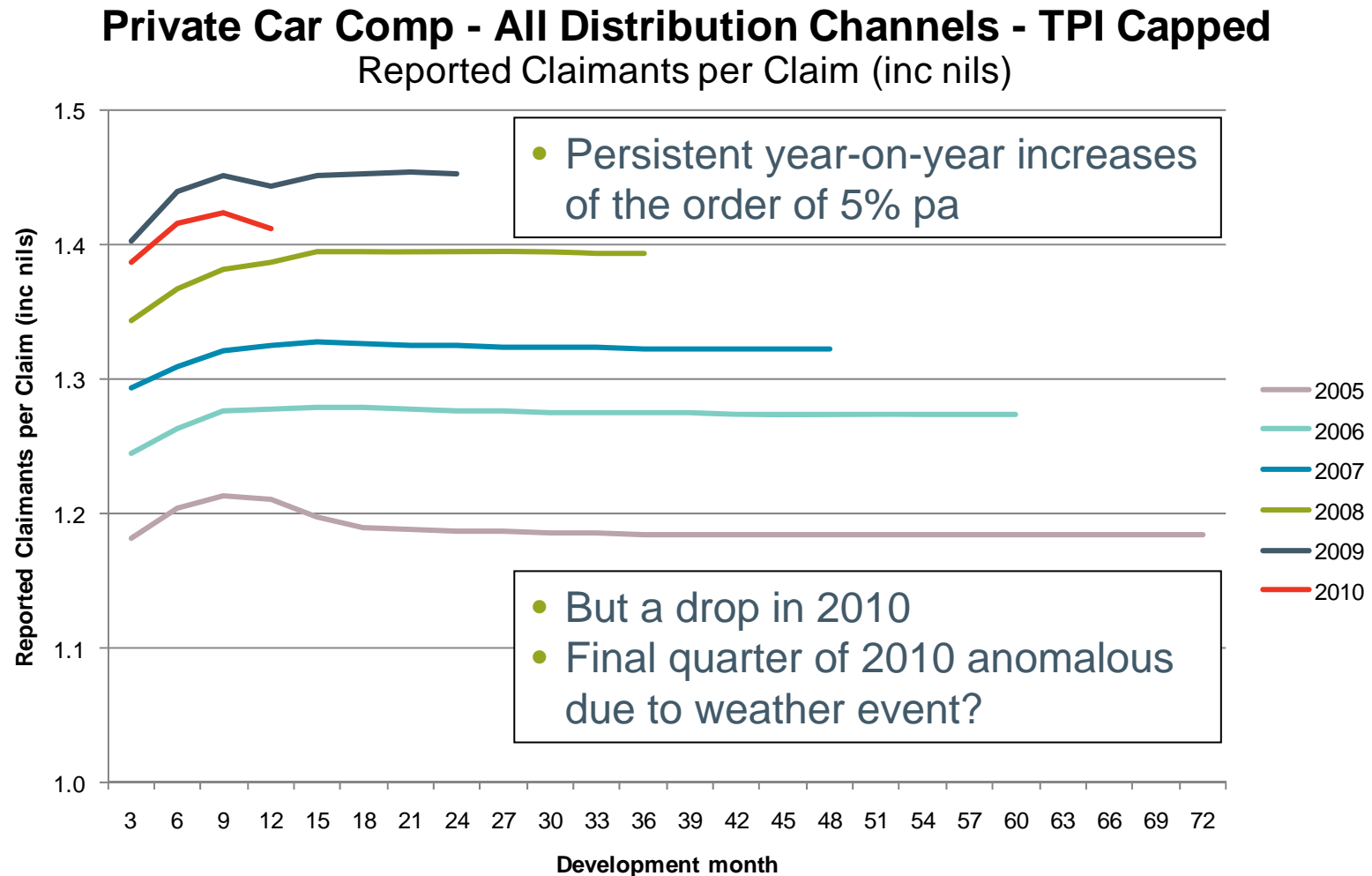
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Private Car Comprehensive

Reported claimants per claim



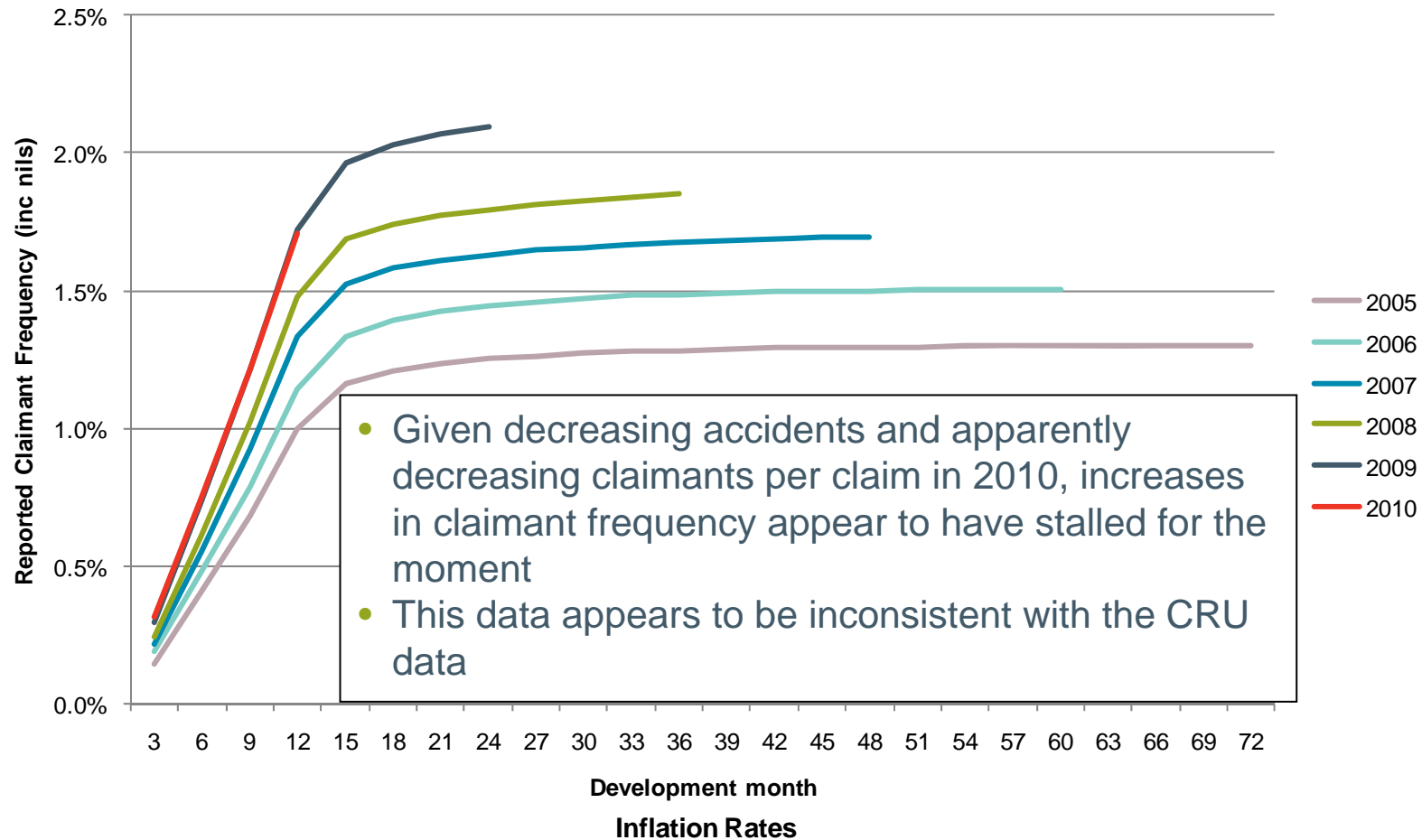
Inflation Rates
09-10: -2.2% 08-09: 4.1% 07-08: 5.3% 06-07: 3.8% 05-06: 7.6%

Private Car Comprehensive

Reported claimant frequency

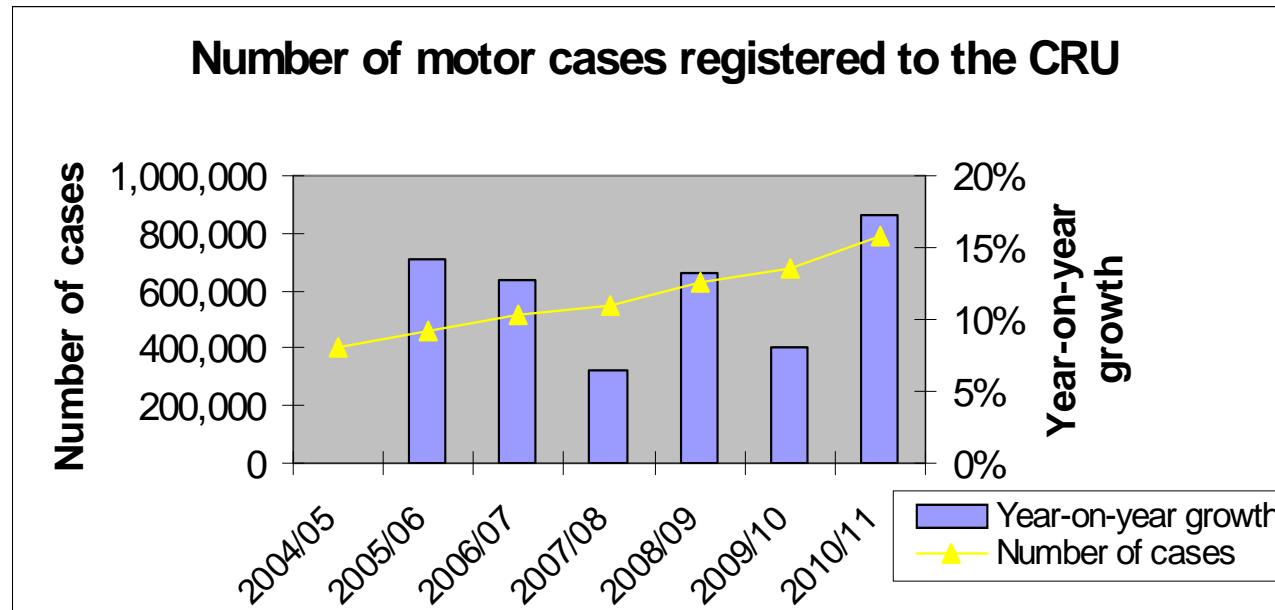
Private Car Comp - All Distribution Channels - TPI Capped

Reported Claimant Frequency (inc nils)



Persistent increases in CRU claimants despite apparent drop in claimant frequency in AY2010

- 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
- We note the puzzling difference between the two measures of claimant frequency:
 - CRU data is based on registration so may reflect an element of speeding up
 - Dates are not quite consistent with insurer claimant data and perhaps insurer claimant data is not as robust as other data
 - Potential distortion from Q4 2010 weather
 - Insurer data quality is not as high as for other data in this study



Private Car Comp: Fewer accidents but each at greater cost of damage

with more bodily injury, with less inflation per case at the early stages of the MOJ reforms

Damage	Injury
<ul style="list-style-type: none">• 2010 road usage down and 6% fewer accidents• But high average cost inflation continues at 7%• Insurers are settling more quickly	<ul style="list-style-type: none">• Increasing proportions of accidents involve TPI with inflation in TPI/TPD freq of circa 10%• But with fewer accidents in 2010, TPI frequency increases are marginal• MOJ was introduced in 2010 and experience in the 2010 accident year has marked a change with the past; payments have sped up materially as have settlement rates.• Whilst there is evidence that case estimate weakness is not as marked as previously for 2010 accidents and that to date average cost inflation is marginal and down from the previous very high levels but<ul style="list-style-type: none">– This has been flattered by lower numbers of accidents driven by potentially short term suppression of road usage– The early stages of the MOJ process give us no knowledge of how the new process will develop at Stage III.• Case estimate strength remains a significant issue for 2009 & prior with commensurate risk of under-reserving if undue reliance is place on incurred claims. For overall reserves to be adequate IBNR+IBNeR will need to be a greater proportion of reserves than previously

There are high levels of uncertainty in the ultimate costs of 2010 bodily injury. Positive signs from the early stages of MOJ should be read in the context of increasing numbers of CMCs, claimants per claim and doubt as to the costs of the MOJ process over its full life cycle → risk of underpricing

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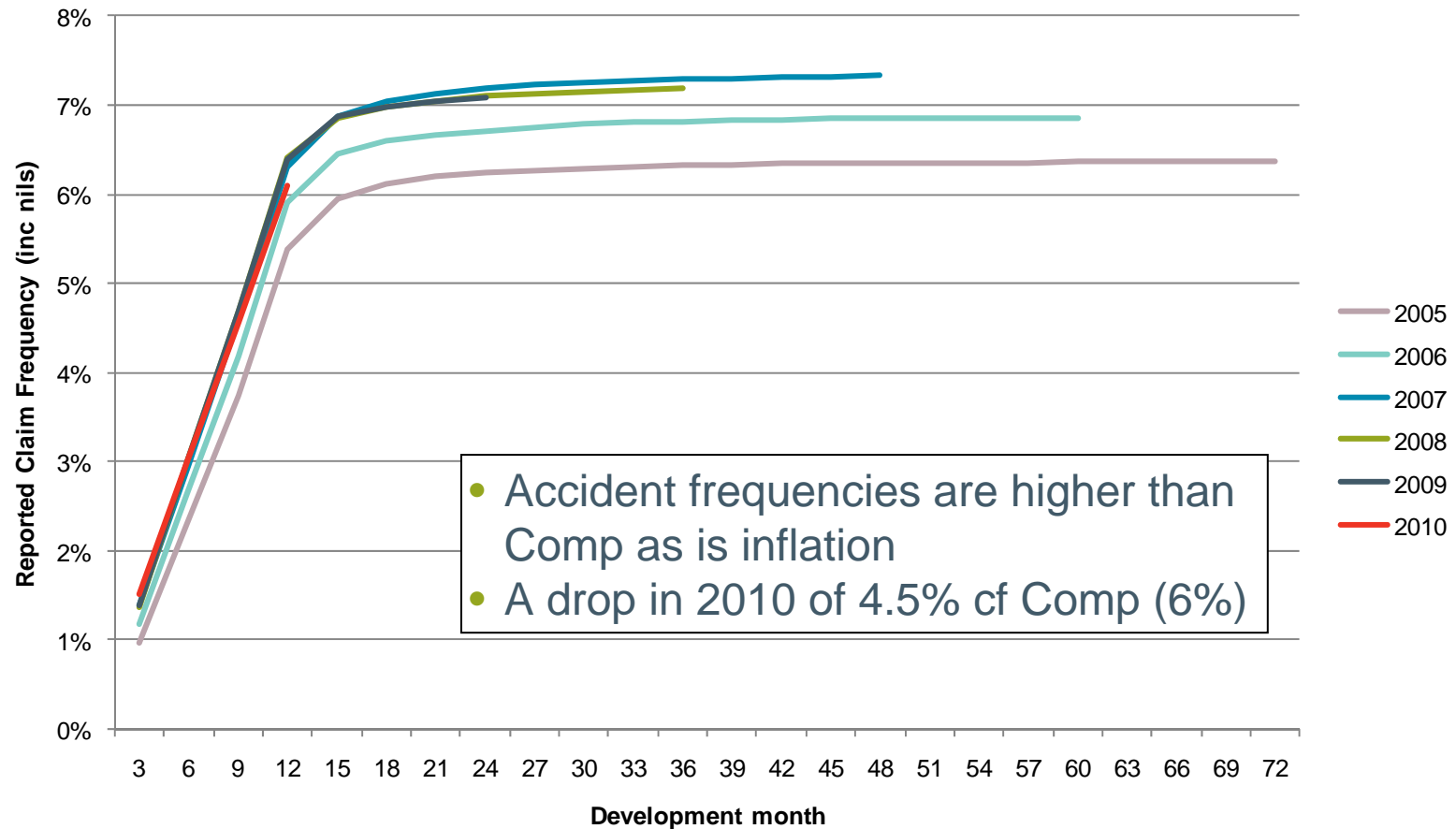
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2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPD

Reported Claim Frequency (inc nils)

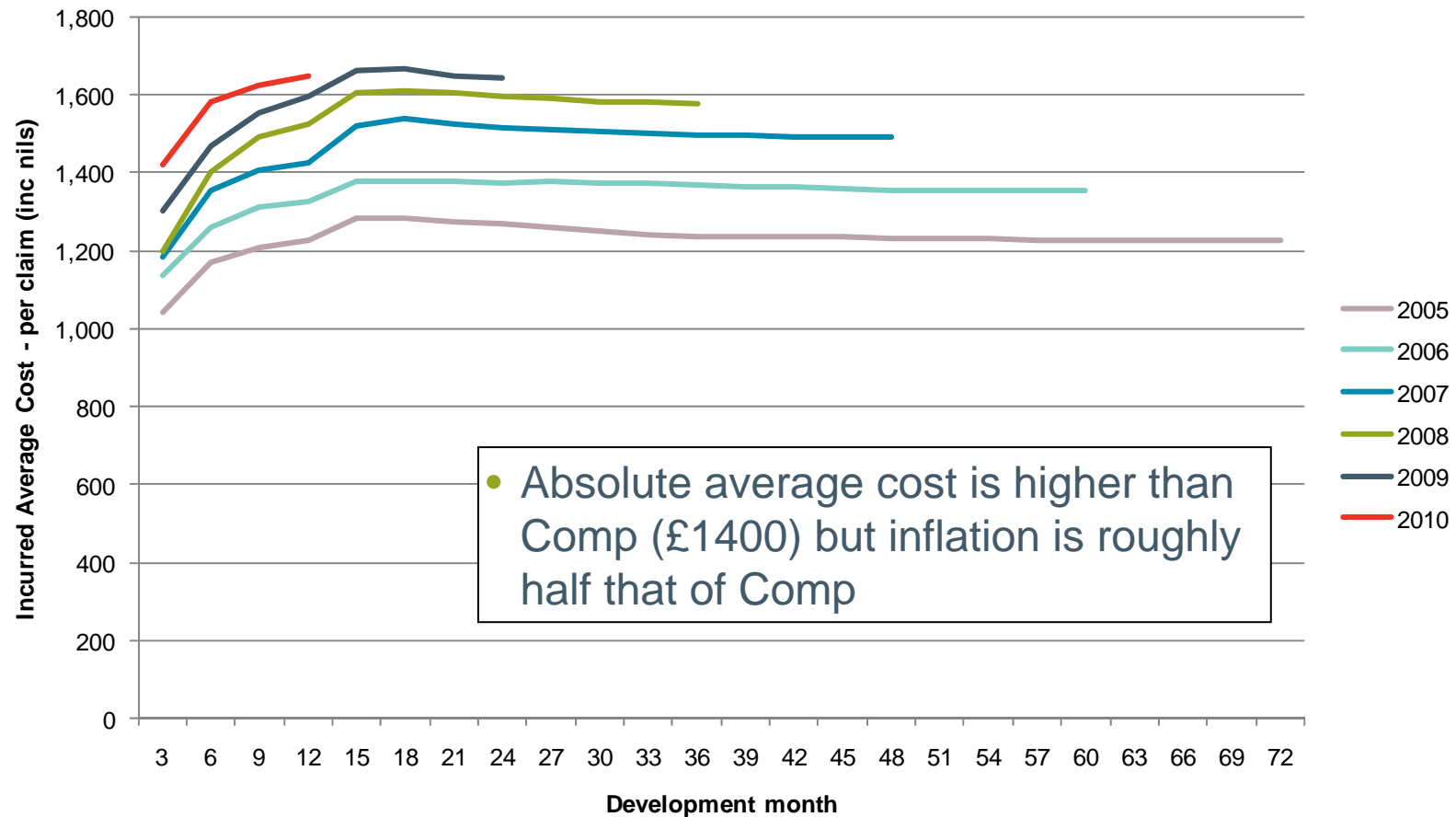


Inflation Rates
09-10: -4.5% 08-09: -0.3% 07-08: -1.5% 06-07: 7% 05-06: 7.9%

2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPD

Incurred Average Cost - per claim (inc nils)

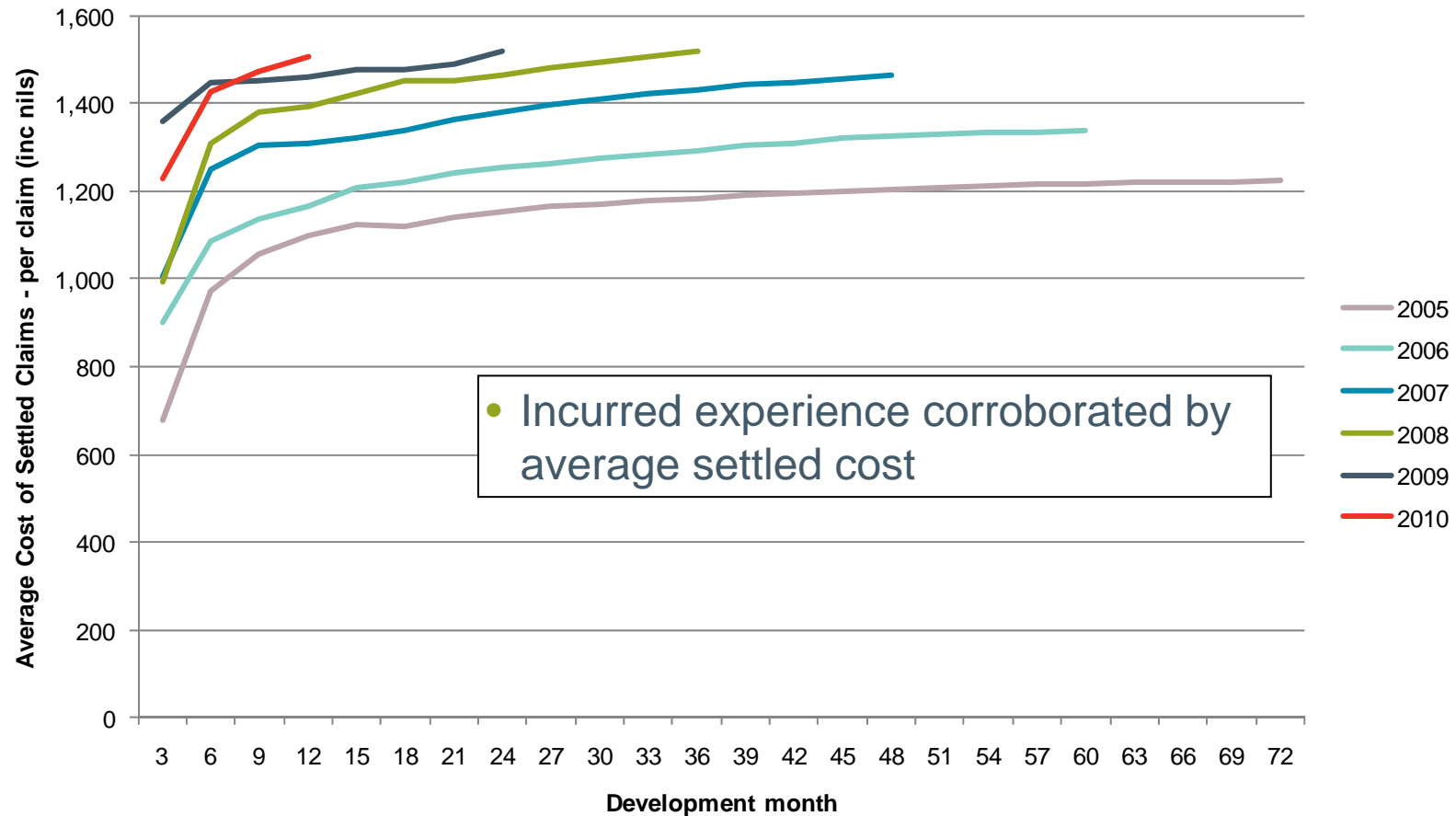


Inflation Rates
09-10: 3.4% 08-09: 3% 07-08: 5.3% 06-07: 10% 05-06: 10.1%

2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPD

Average Cost of Settled Claims - per claim (inc nils)

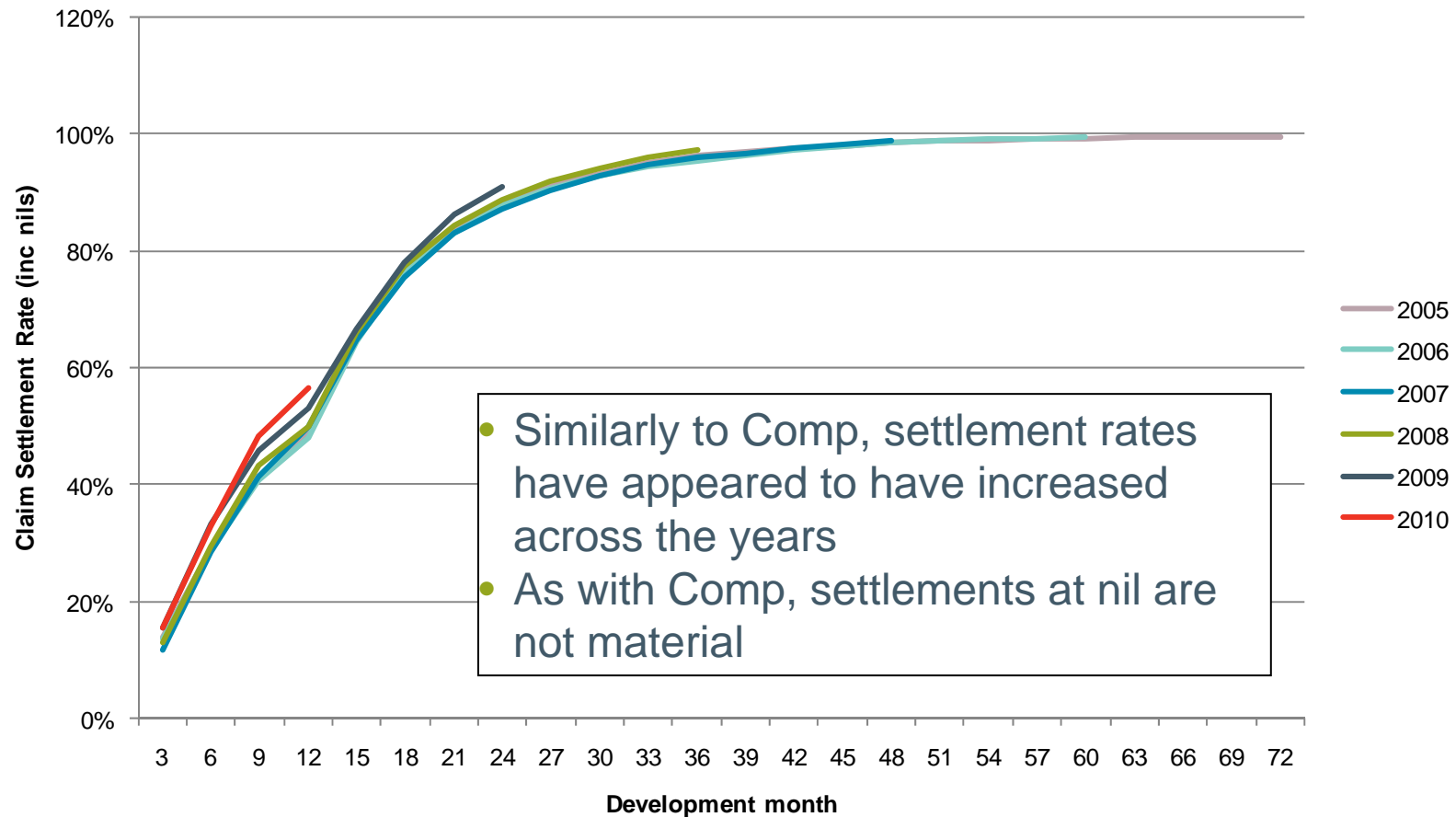


Inflation Rates
 09-10: 3.2% 08-09: 3.7% 07-08: 6.1% 06-07: 10.7% 05-06: 9.9%

2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPD

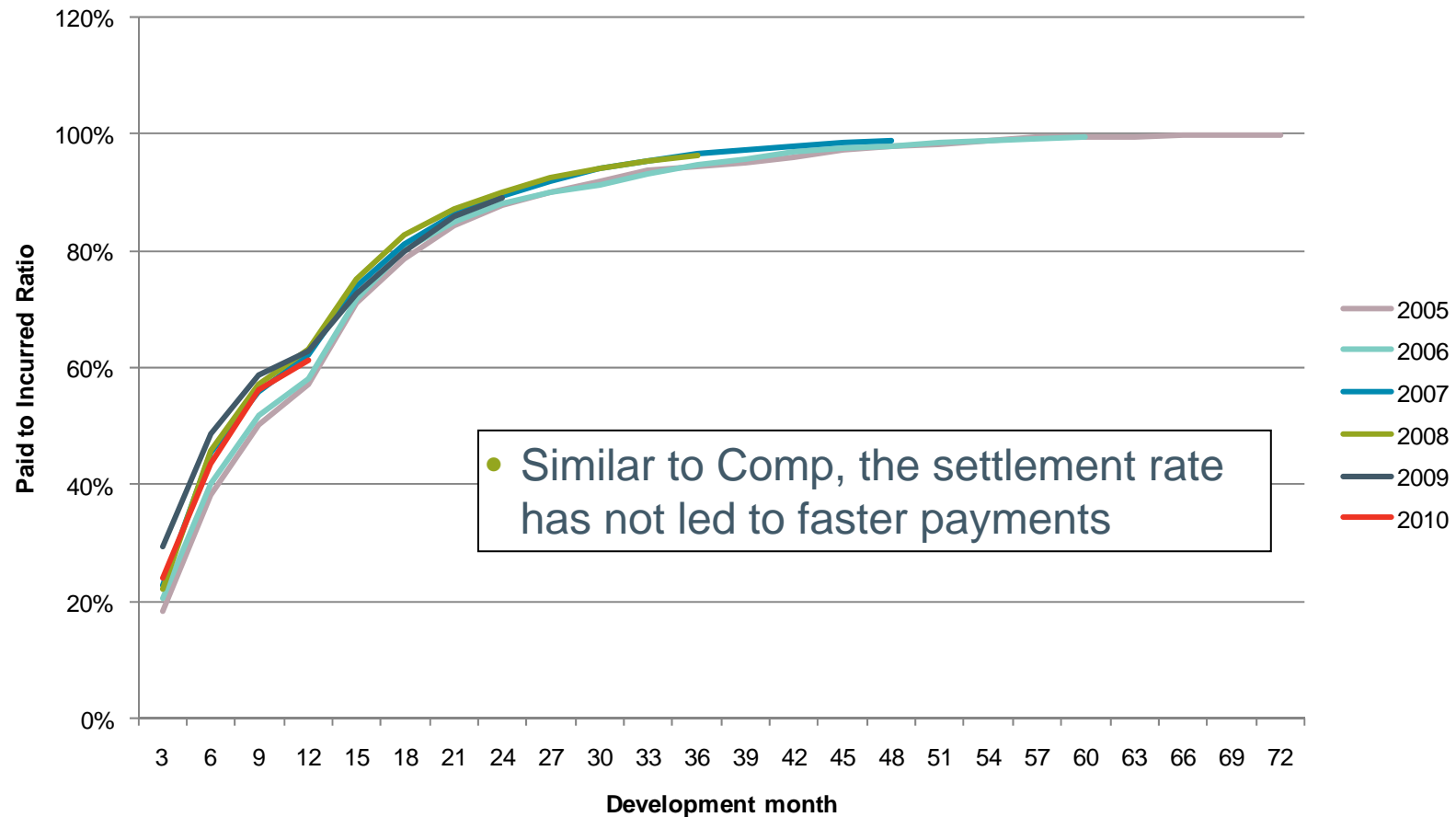
Claim Settlement Rate (inc nils)



Inflation Rates
09-10: 6.4% 08-09: 2.4% 07-08: 1.4% 06-07: 0.4% 05-06: 0.2%

2010 Statistic

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



Inflation Rates
09-10: -2.1% 08-09: -0.9% 07-08: -0.1% 06-07: 0.7% 05-06: -0.1%

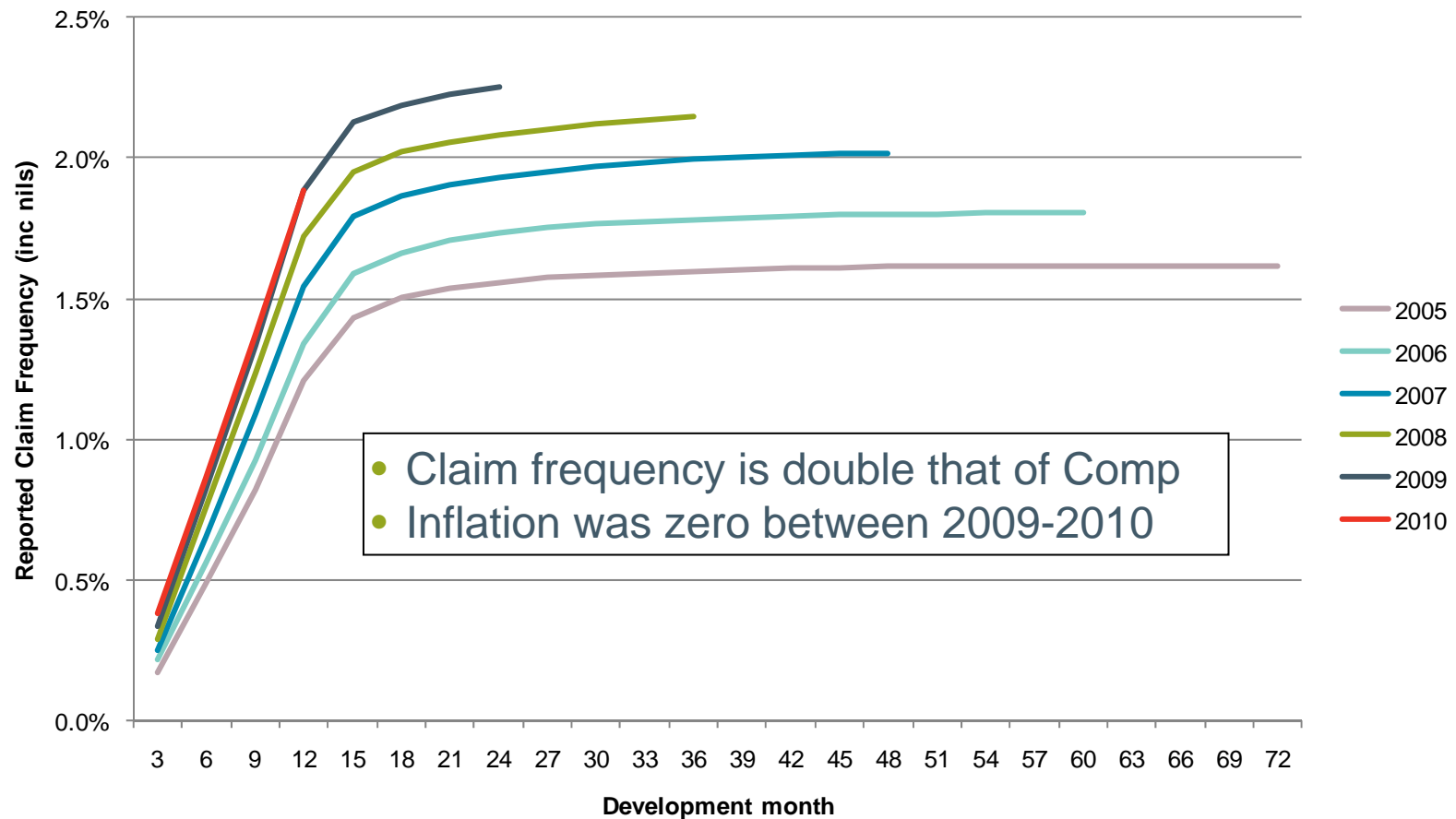
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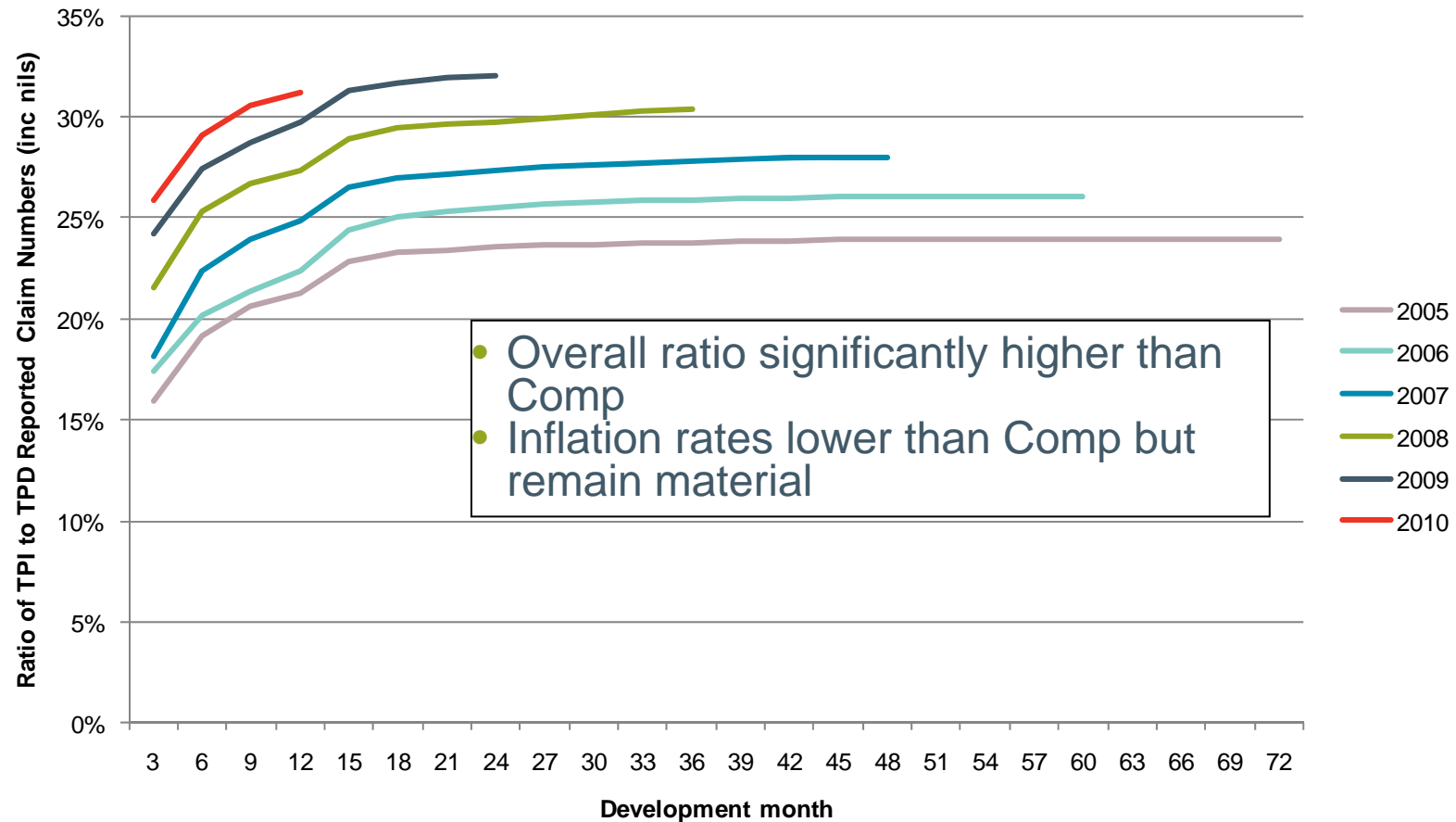
Private Car Non-Comp - All Distribution Channels - TPI Capped Reported Claim Frequency (inc nils)



Inflation Rates
09-10: 0.2% 08-09: 8.3% 07-08: 7.6% 06-07: 12% 05-06: 11.6%

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

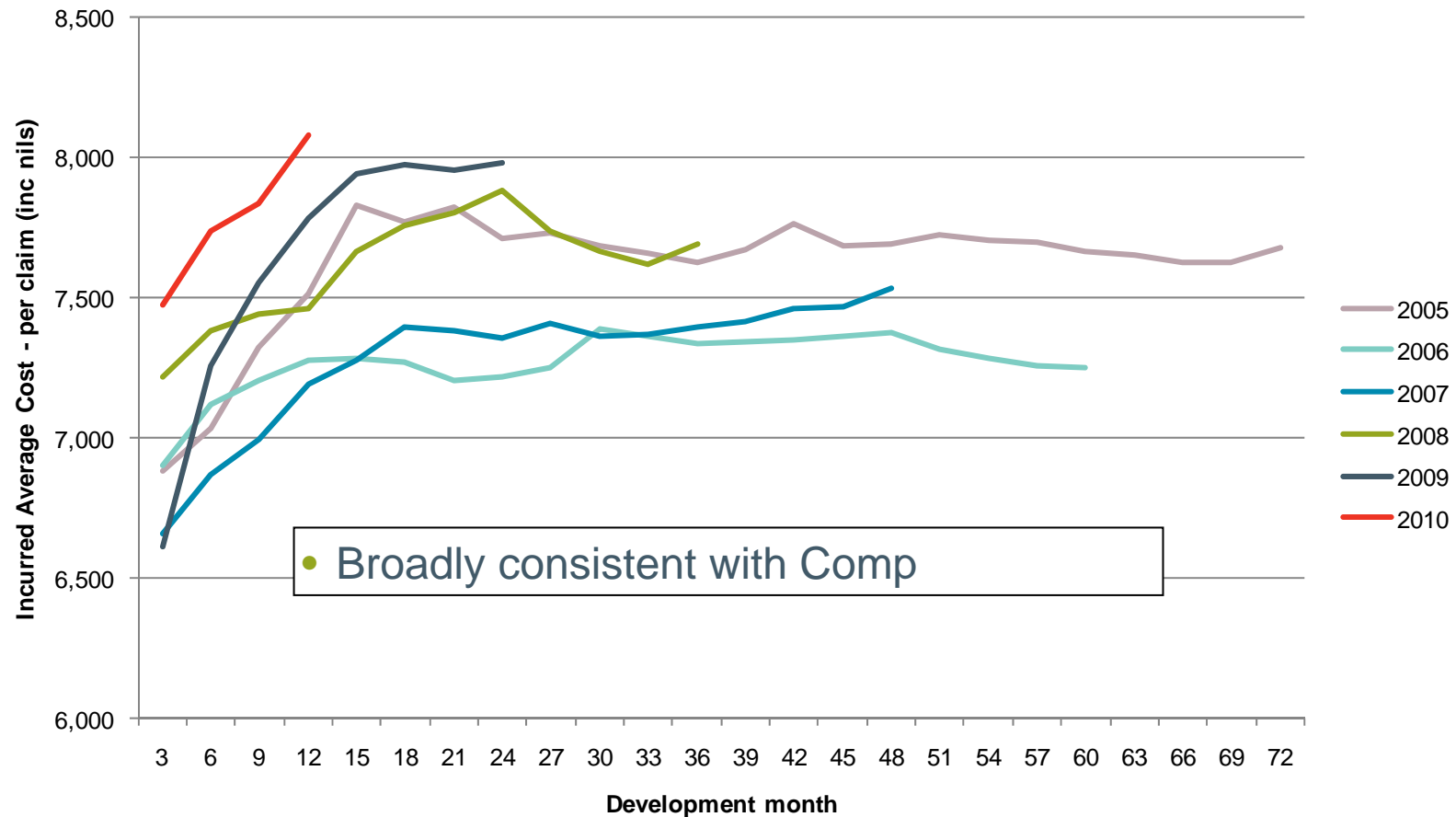


Inflation Rates
 09-10: 4.9% 08-09: 7.8% 07-08: 9.1% 06-07: 7.6% 05-06: 8.9%

2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPI Capped

Incurred Average Cost - per claim (inc nils)

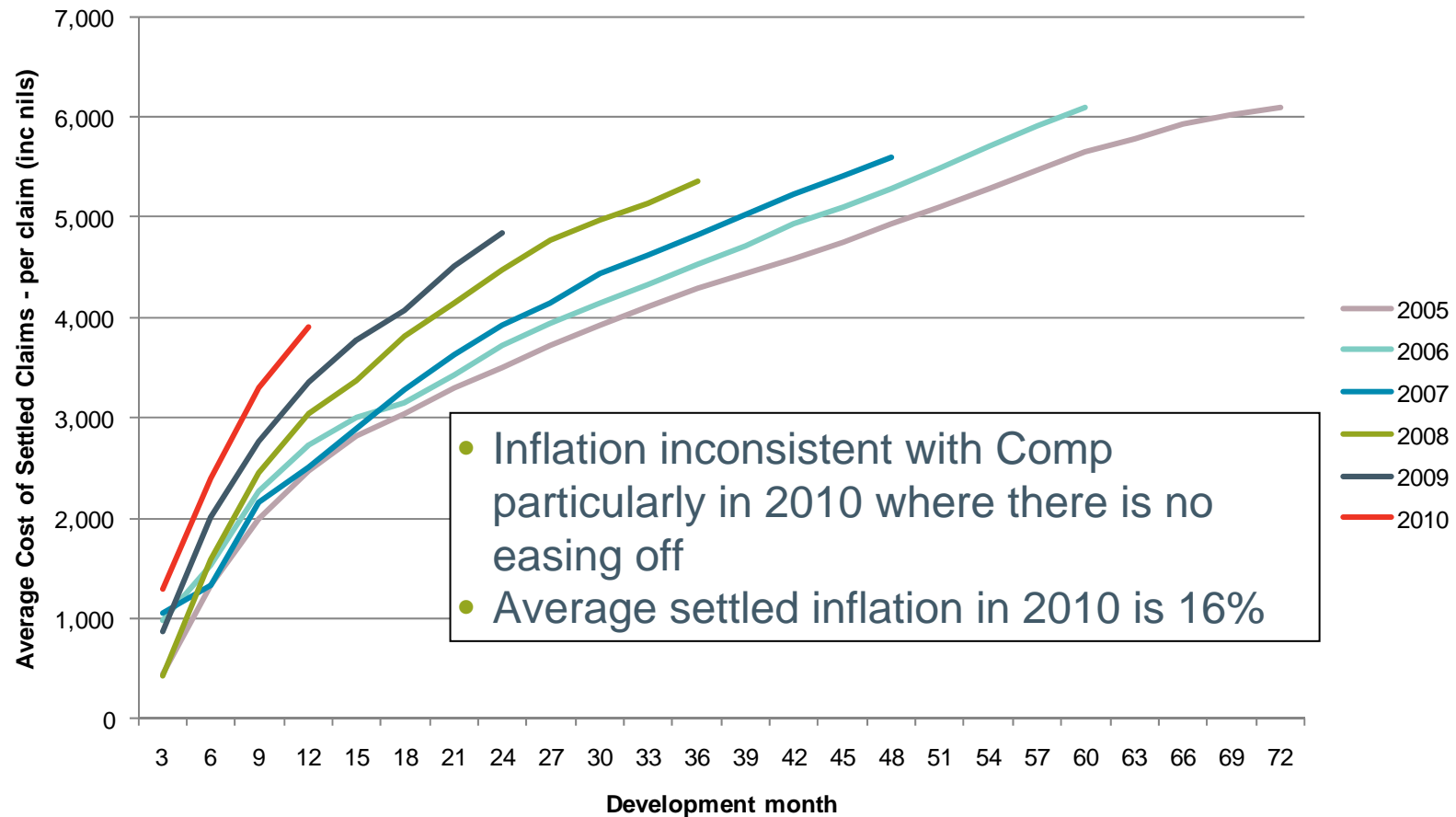


Inflation Rates
09-10: 3.8% 08-09: 1.2% 07-08: 4% 06-07: 2.1% 05-06: -5.4%

2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPI Capped

Average Cost of Settled Claims - per claim (inc nils)

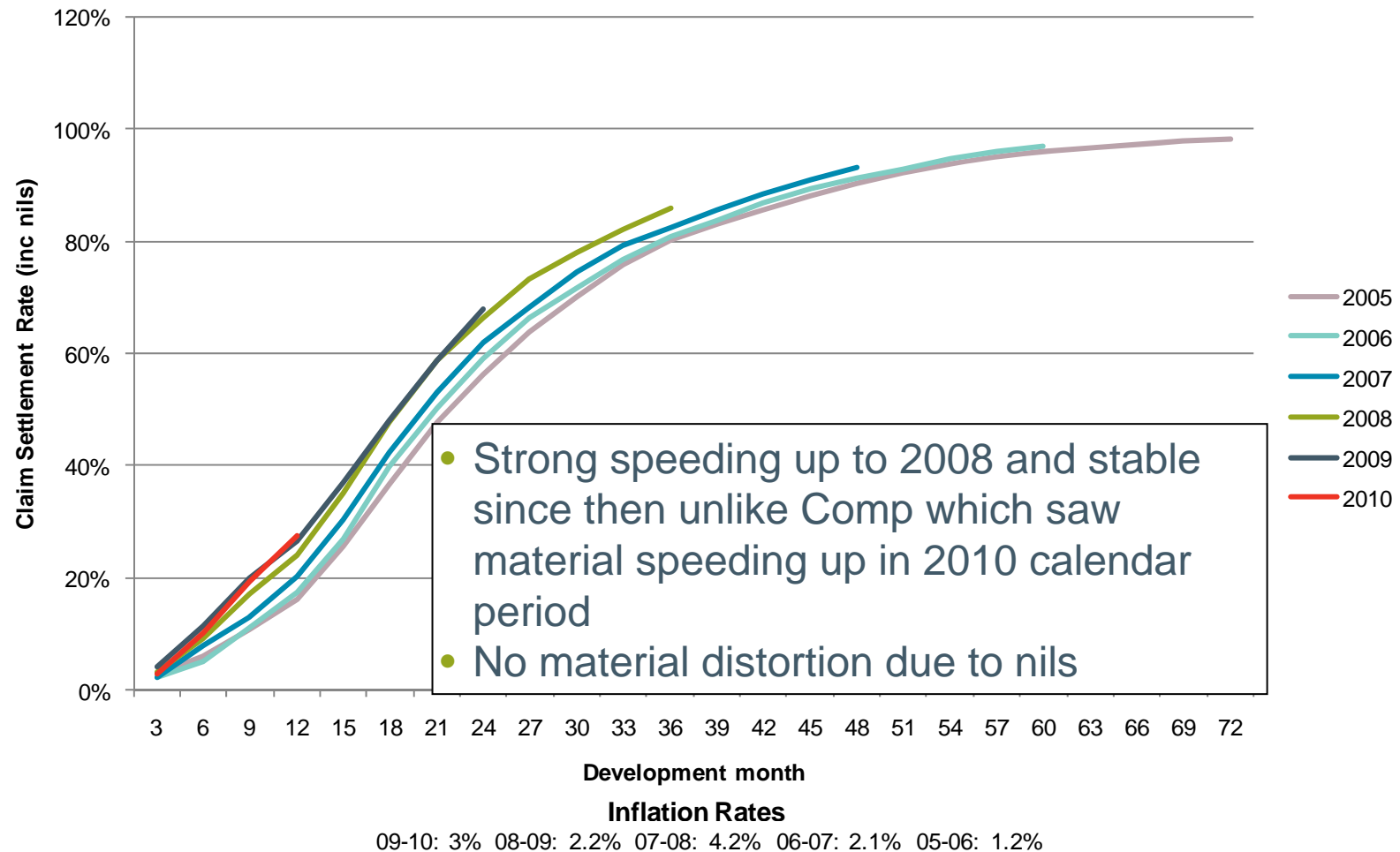


- Inflation inconsistent with Comp particularly in 2010 where there is no easing off
- Average settled inflation in 2010 is 16%

Inflation Rates
09-10: 16.3% 08-09: 8.2% 07-08: 10.9% 06-07: 6% 05-06: 7.9%

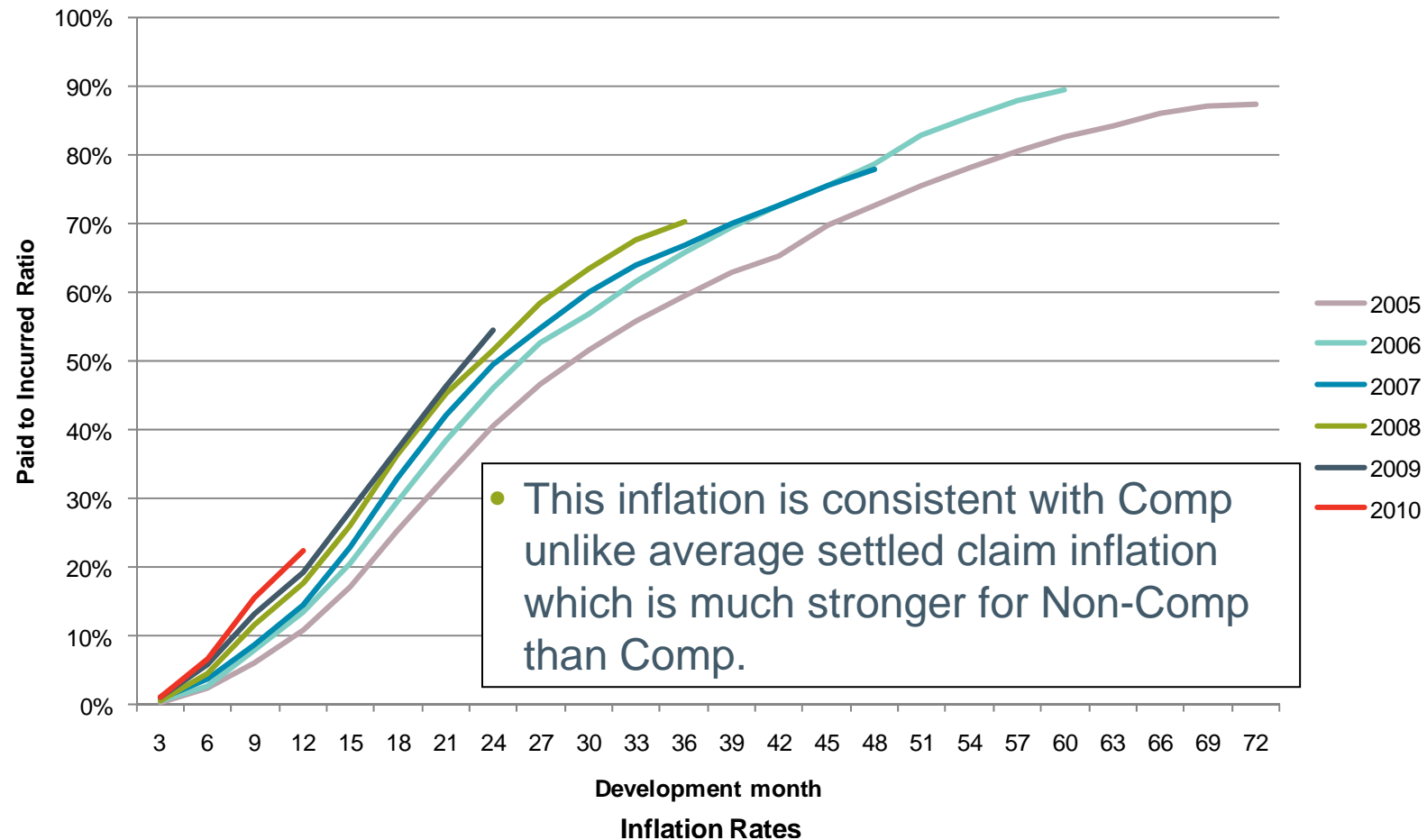
2010 Statistic

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



2010 Statistic

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



Private Car Non-Comp: Declining volumes. All costs higher than Comp as is TPI severity, but other inflation rates are lower than Comp

- Non-Comp business volumes continue to decline
- with more adverse claims experience than Comp
 - Higher TPD, TPI frequencies
 - TPI/TPD above 30% cf 25% for Comp
 - Higher TPD severities
 - Higher TPI severity inflation
- But with other inflationary trends not as marked as Comp
- Whereas Comp shows evidence of relative strengthening of case estimates in 2010 accident year, there is evidence of relative weakening for Non-Comp in 2010 with average settled inflation at 16% (average incurred inflation at 4%) with only marginal speeding up of settlements (cf strong speeding up for Comp)

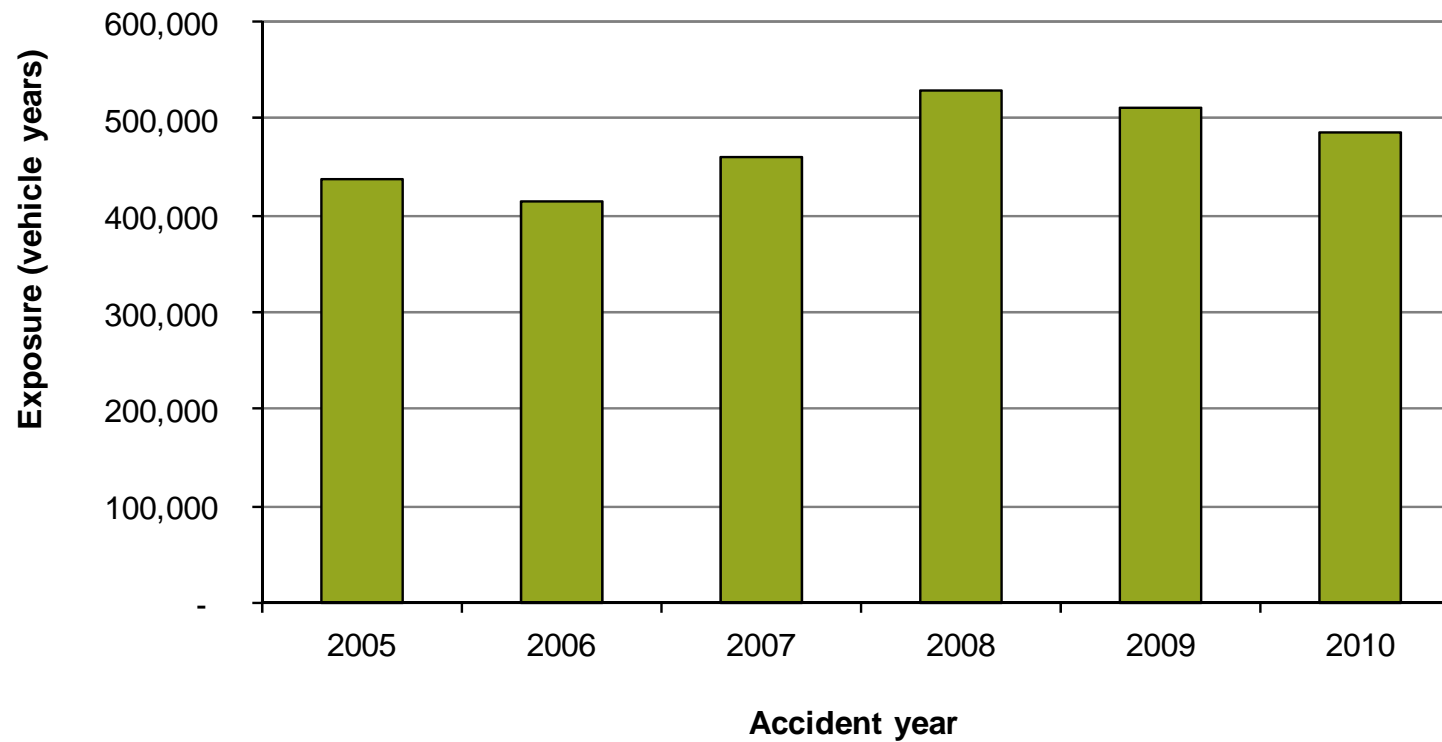
Evidence of weak case estimates → risk of under-reserving
if undue reliance is place on incurred claims. For overall reserves to be adequate IBNR+IBNeR will need to be a greater proportion of reserves than previously

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Motorcycle exposure

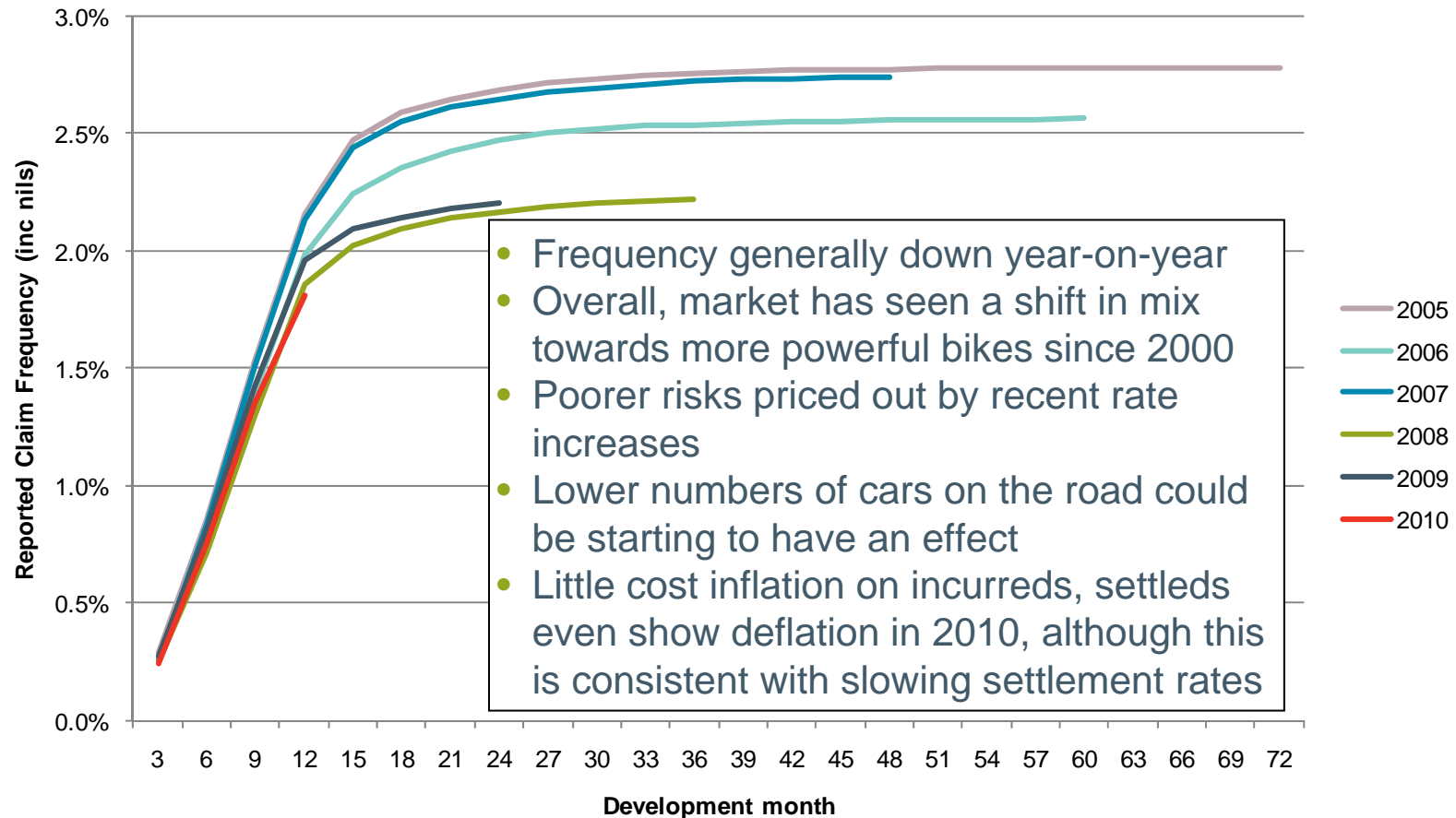


Exposure increased from 2005-2008 but has then decreased by about 4% per annum

Motorcycle

Motorcycle - All Distribution Channels - TPD

Reported Claim Frequency (inc nils)



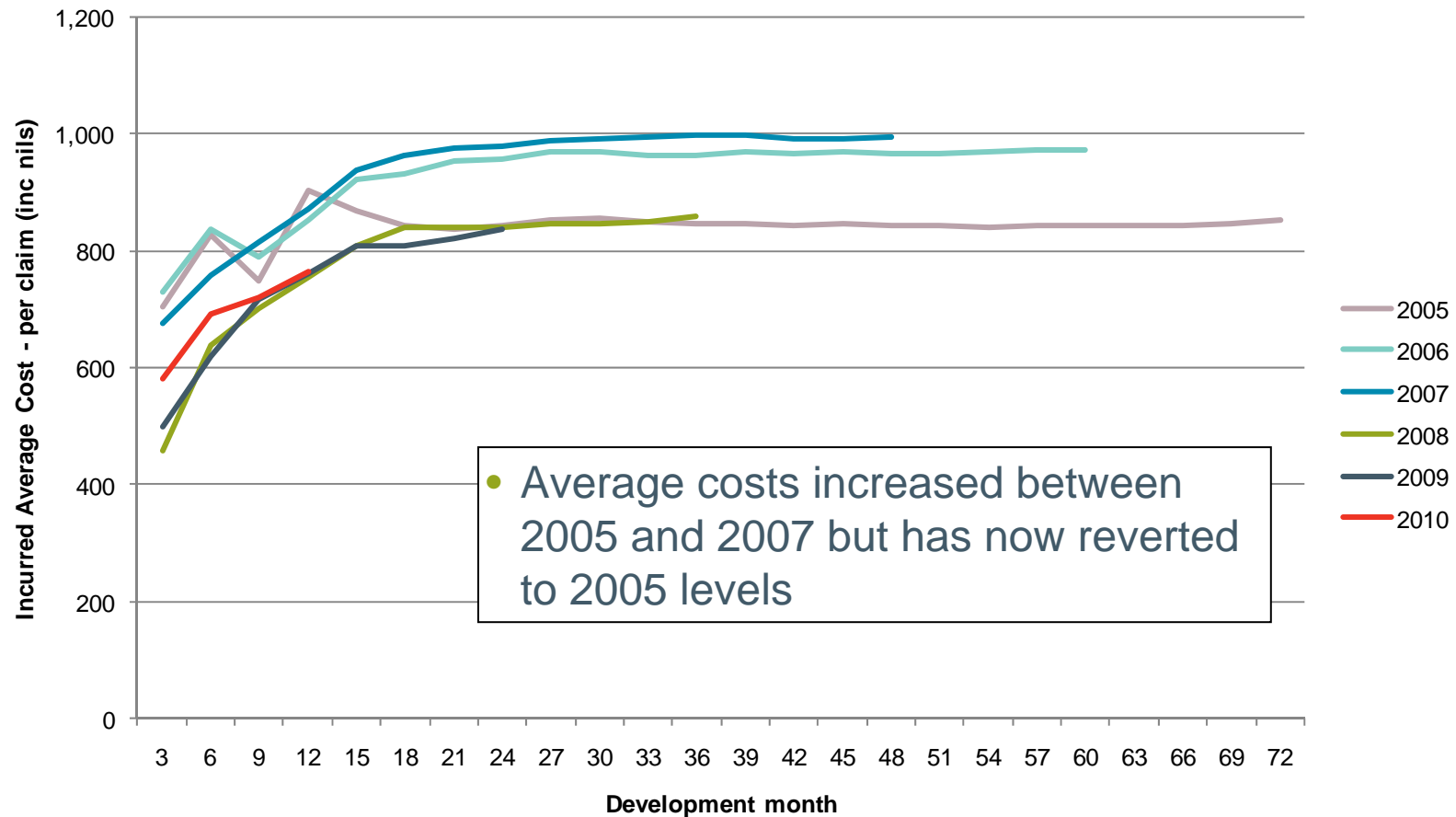
Inflation Rates

09-10: -7.7% 08-09: 1.8% 07-08: -18.5% 06-07: 7.2% 05-06: -7.8%

Motorcycle

Motorcycle - All Distribution Channels - TPD

Incurred Average Cost - per claim (inc nils)



NB: Source data treated for data errors

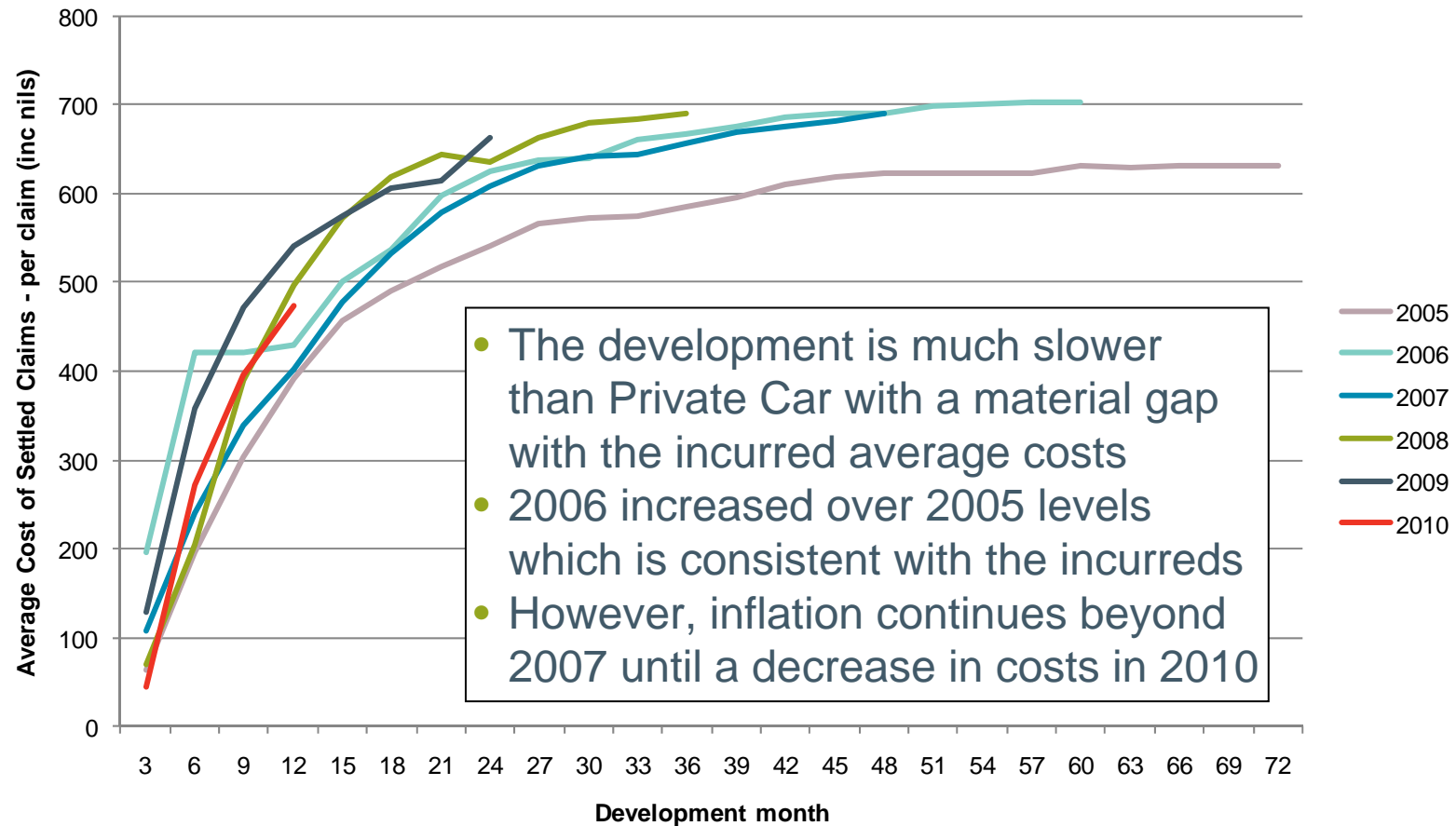
Inflation Rates

09-10: 0.3% 08-09: -0.2% 07-08: -13.9% 06-07: 2.9% 05-06: 15.3%

Motorcycle

Motorcycle - All Distribution Channels - TPD

Average Cost of Settled Claims - per claim (inc nils)

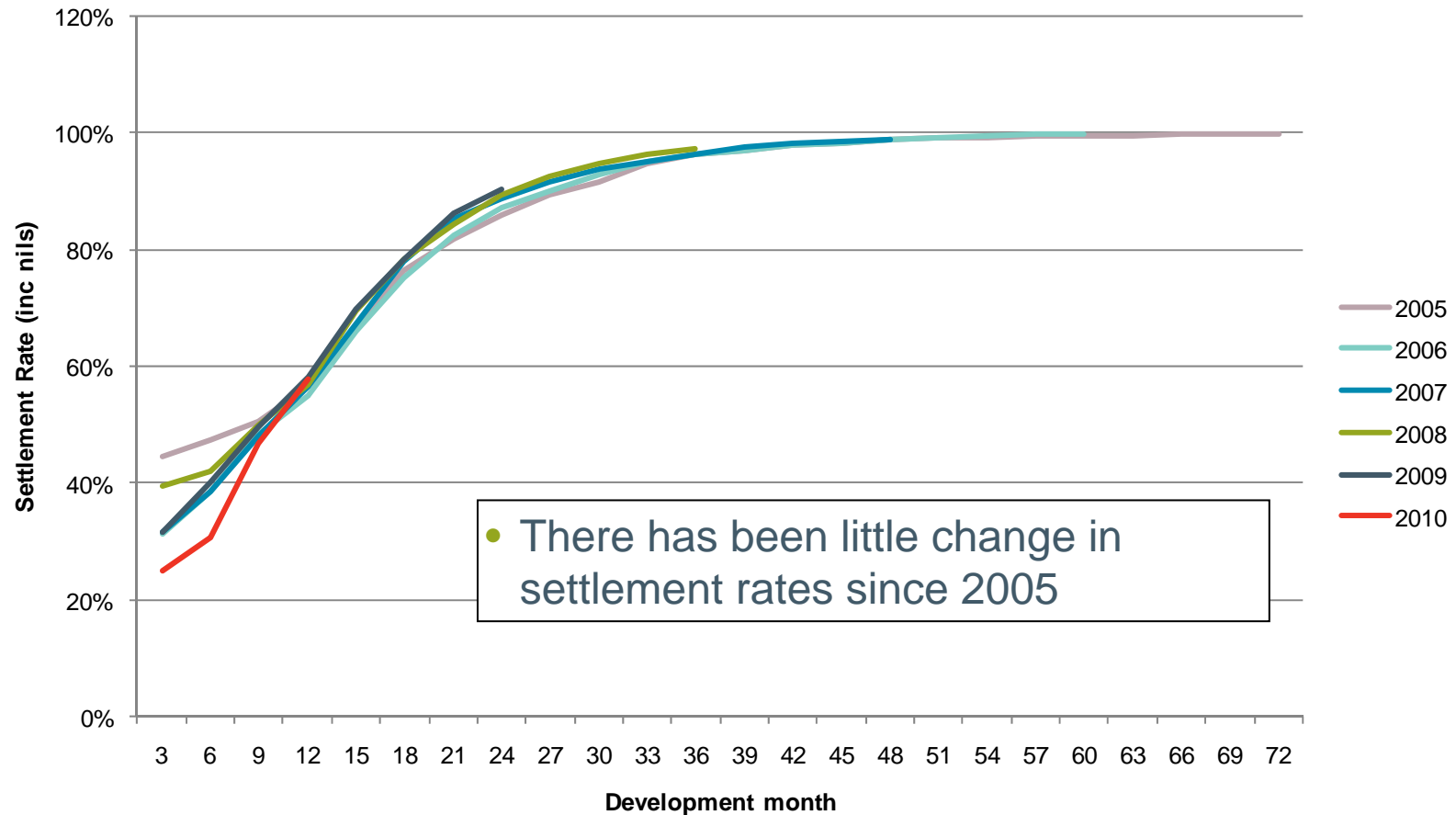


Inflation Rates
09-10: -12.5% 08-09: 4.2% 07-08: 5.1% 06-07: -0.1% 05-06: 11.6%

Motorcycle

Motorcycle - All Distribution Channels - TPD

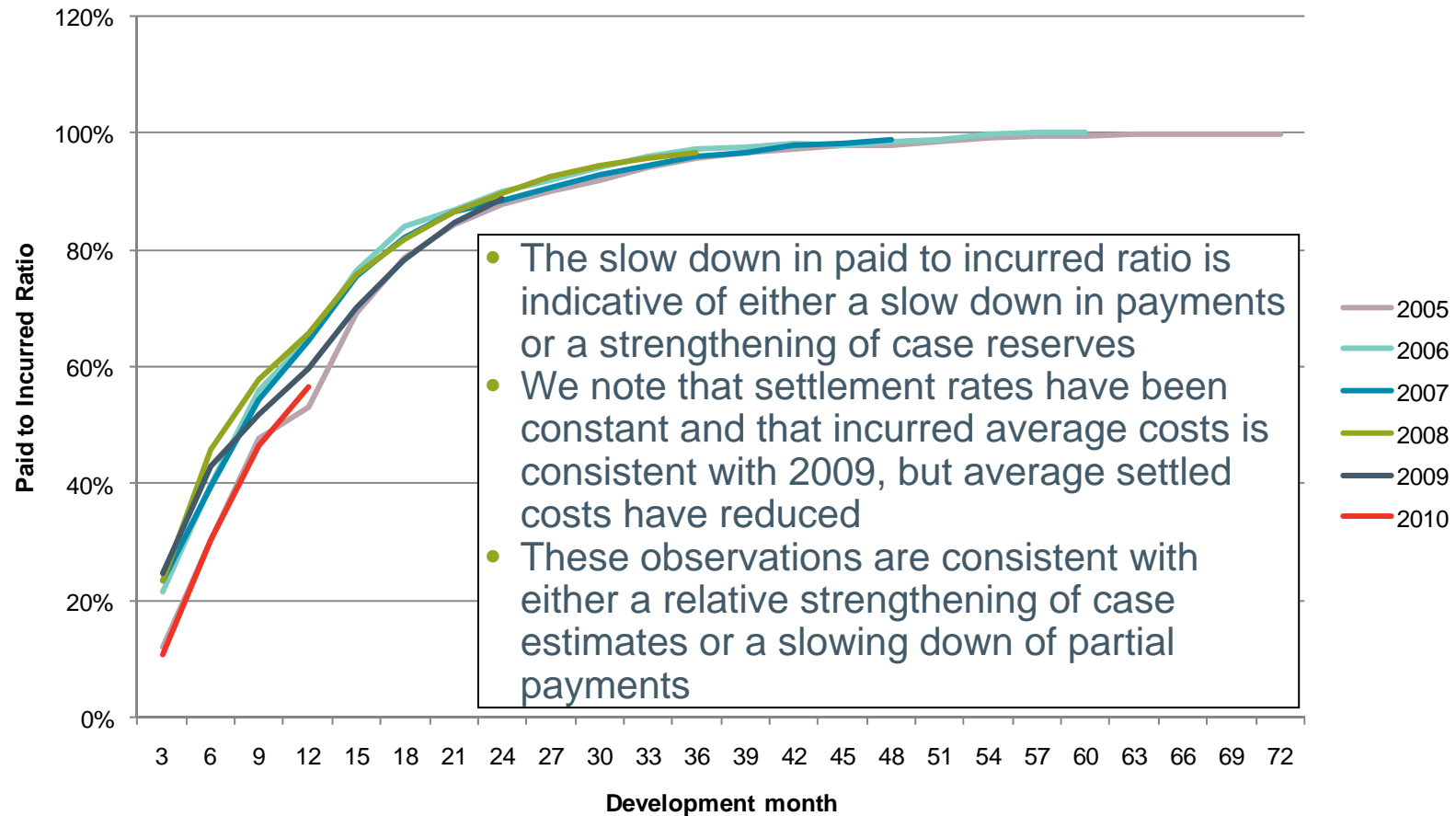
Settlement Rate (inc nils)



Inflation Rates
09-10: -0.2% 08-09: 1.1% 07-08: 0.8% 06-07: 0.1% 05-06: 0.2%

Motorcycle

Motorcycle - All Distribution Channels - TPD Paid to Incurred Ratio

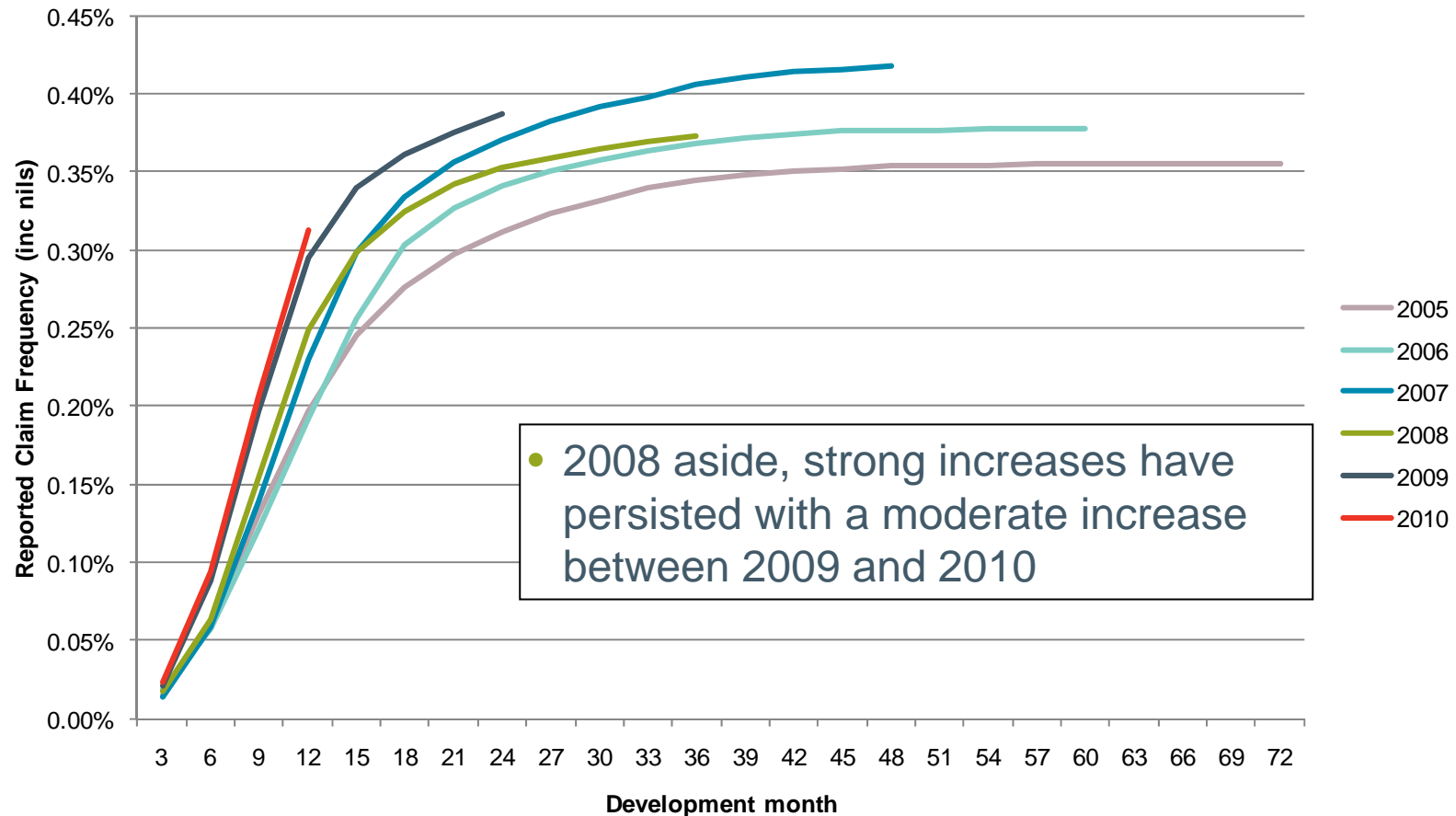


NB: Source data treated for data errors

Motorcycle

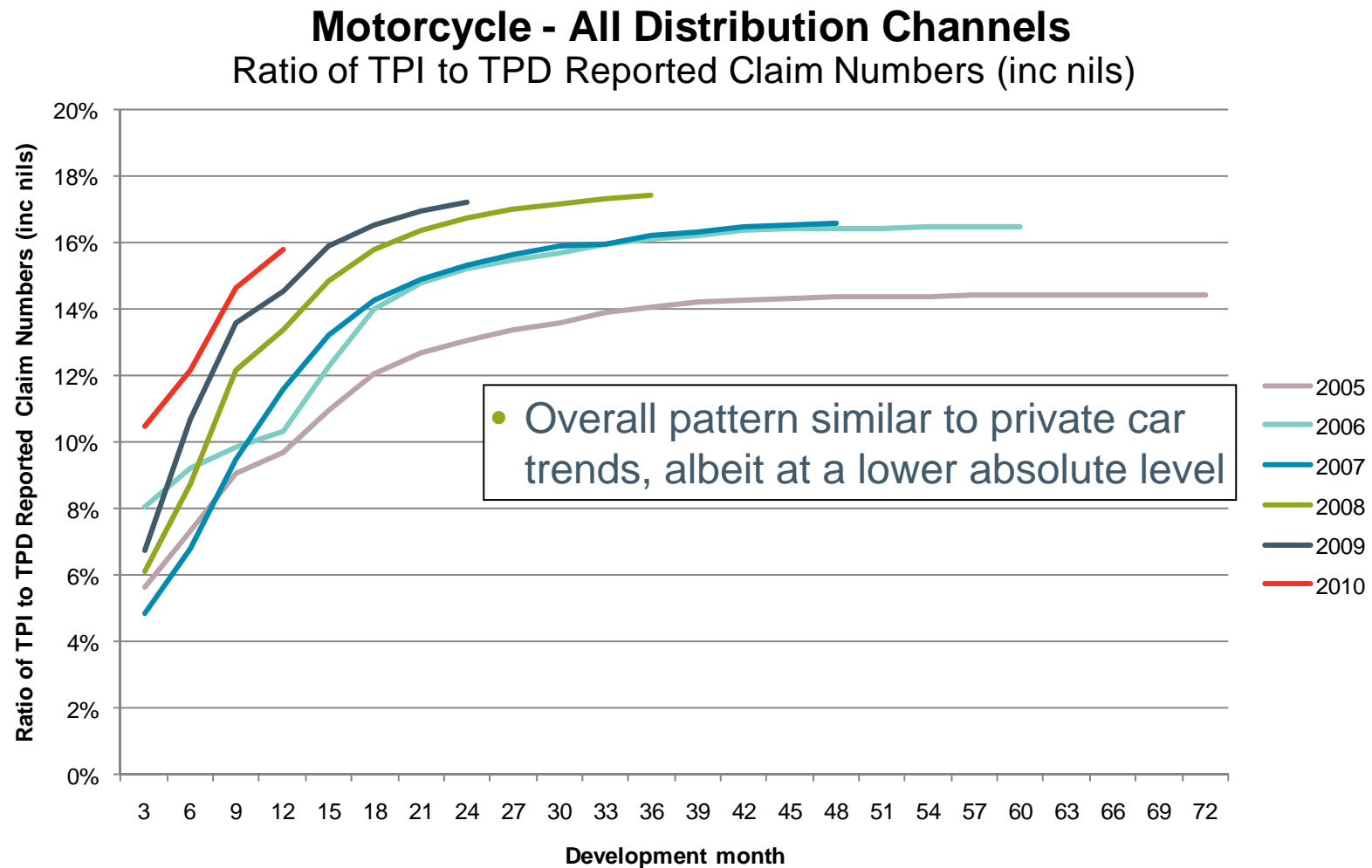
Motorcycle - All Distribution Channels - TPI Capped

Reported Claim Frequency (inc nils)



Inflation Rates
09-10: 5.9% 08-09: 10% 07-08: -8.3% 06-07: 10.9% 05-06: 6.5%

Motorcycle

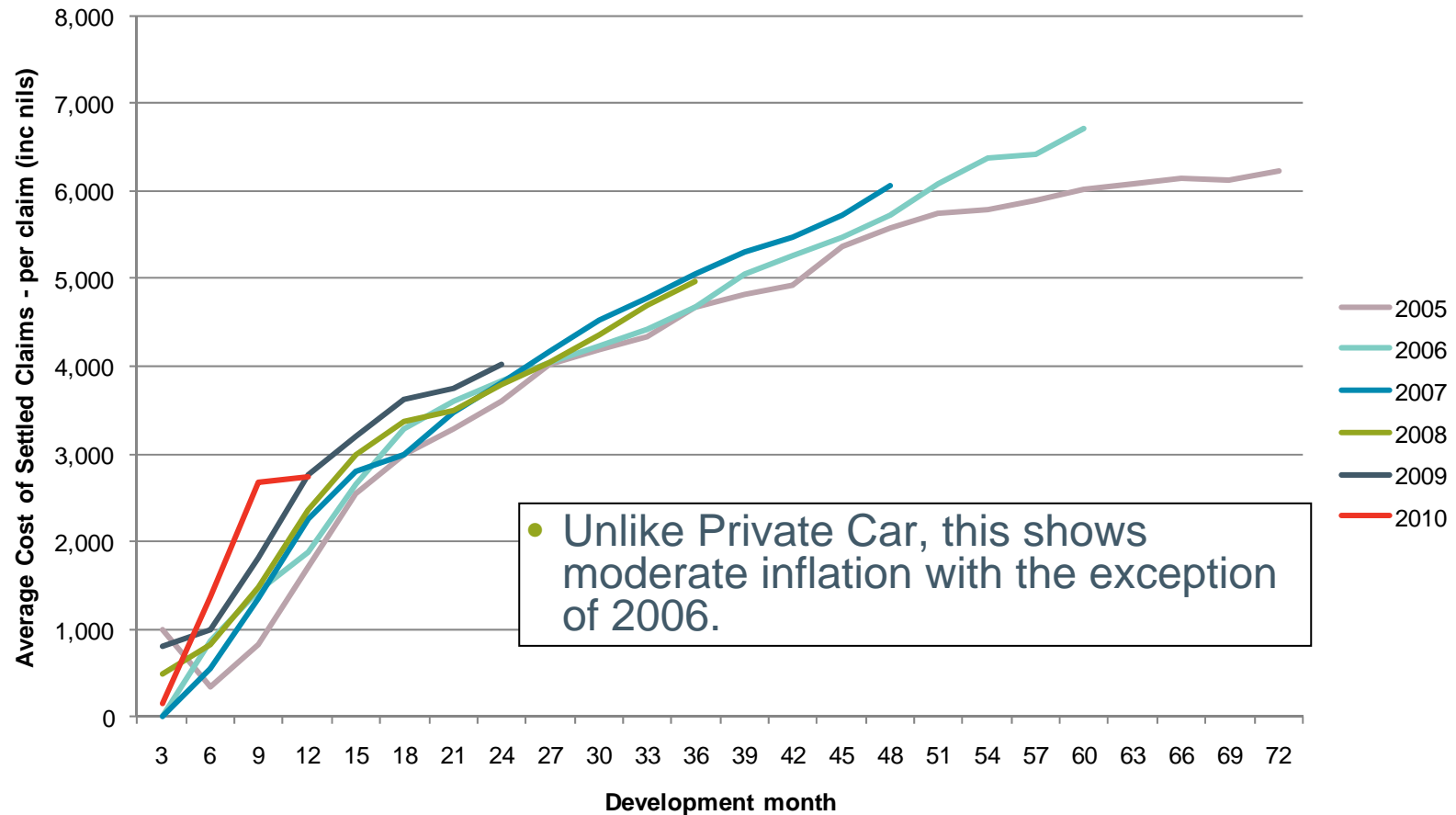


Inflation Rates
09-10: 8.7% 08-09: 2.8% 07-08: 7.4% 06-07: 0.9% 05-06: 14.1%

Motorcycle

Motorcycle - All Distribution Channels - TPI Capped

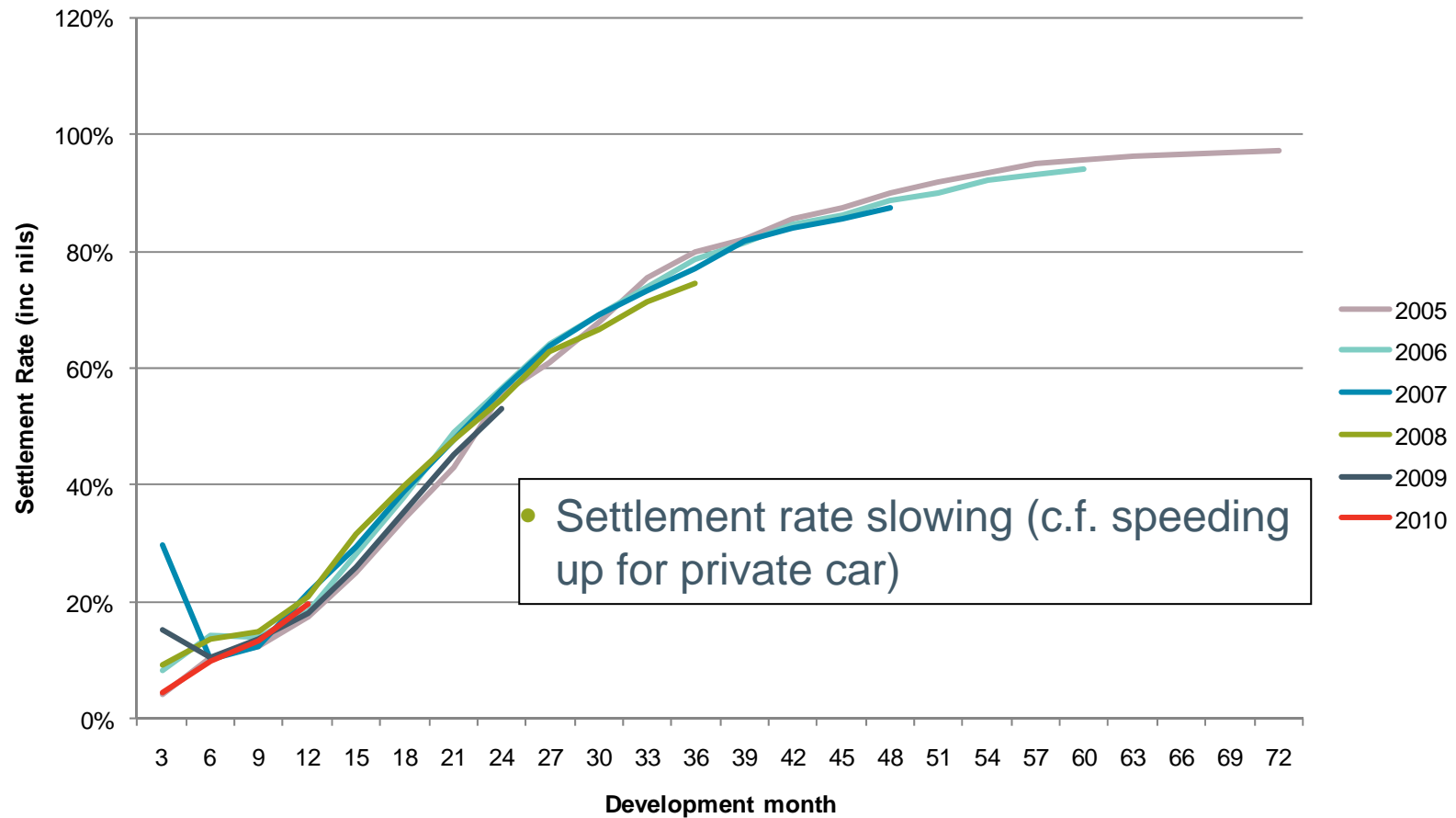
Average Cost of Settled Claims - per claim (inc nils)



Inflation Rates
09-10: -0.7% 08-09: 6.3% 07-08: -1.7% 06-07: 6% 05-06: 11.5%

Motorcycle

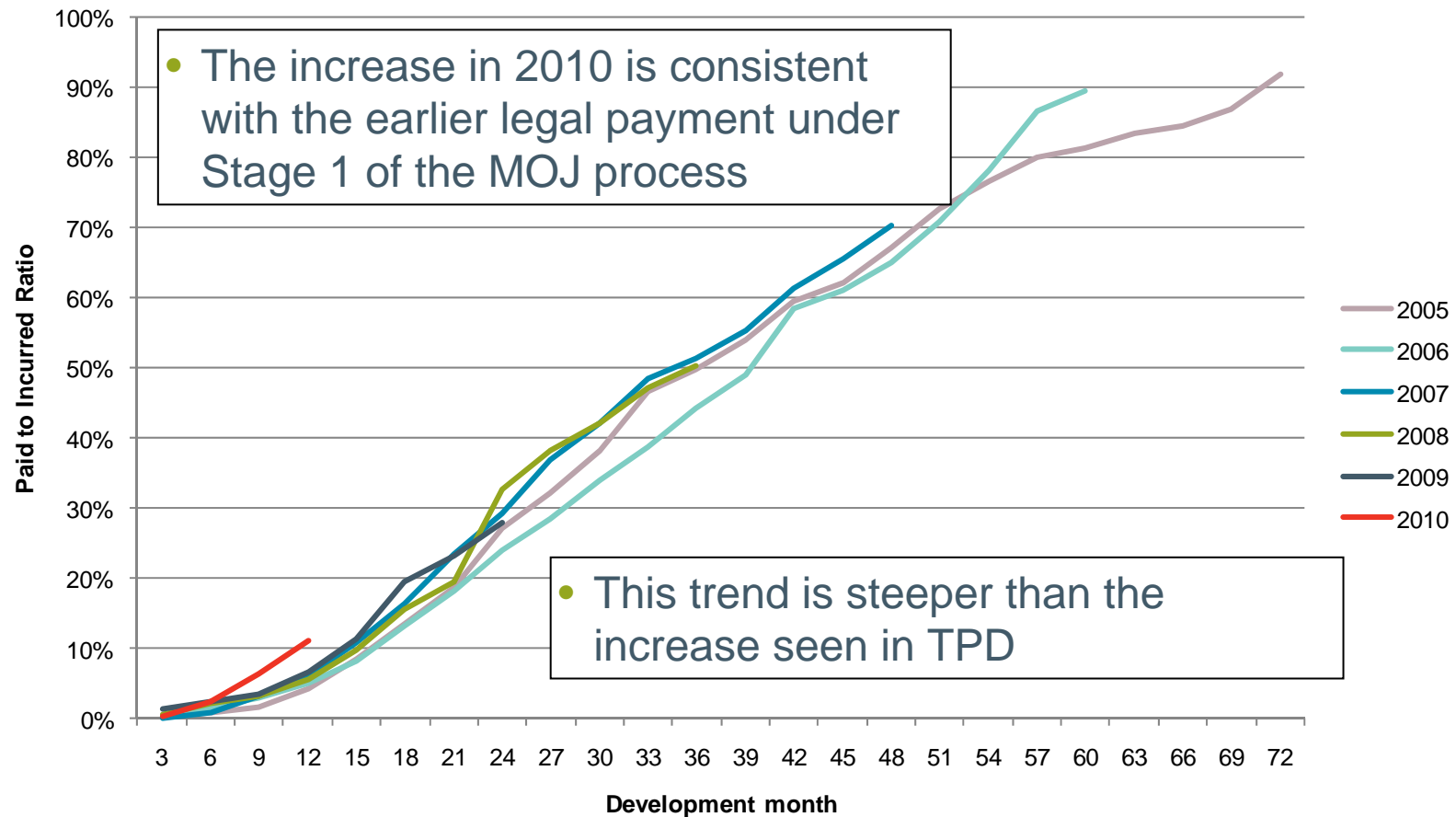
Motorcycle - All Distribution Channels - TPI Capped Settlement Rate (inc nils)



Inflation Rates
09-10: 8.3% 08-09: -2.8% 07-08: -3.2% 06-07: -1.4% 05-06: -1.8%

Motorcycle

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



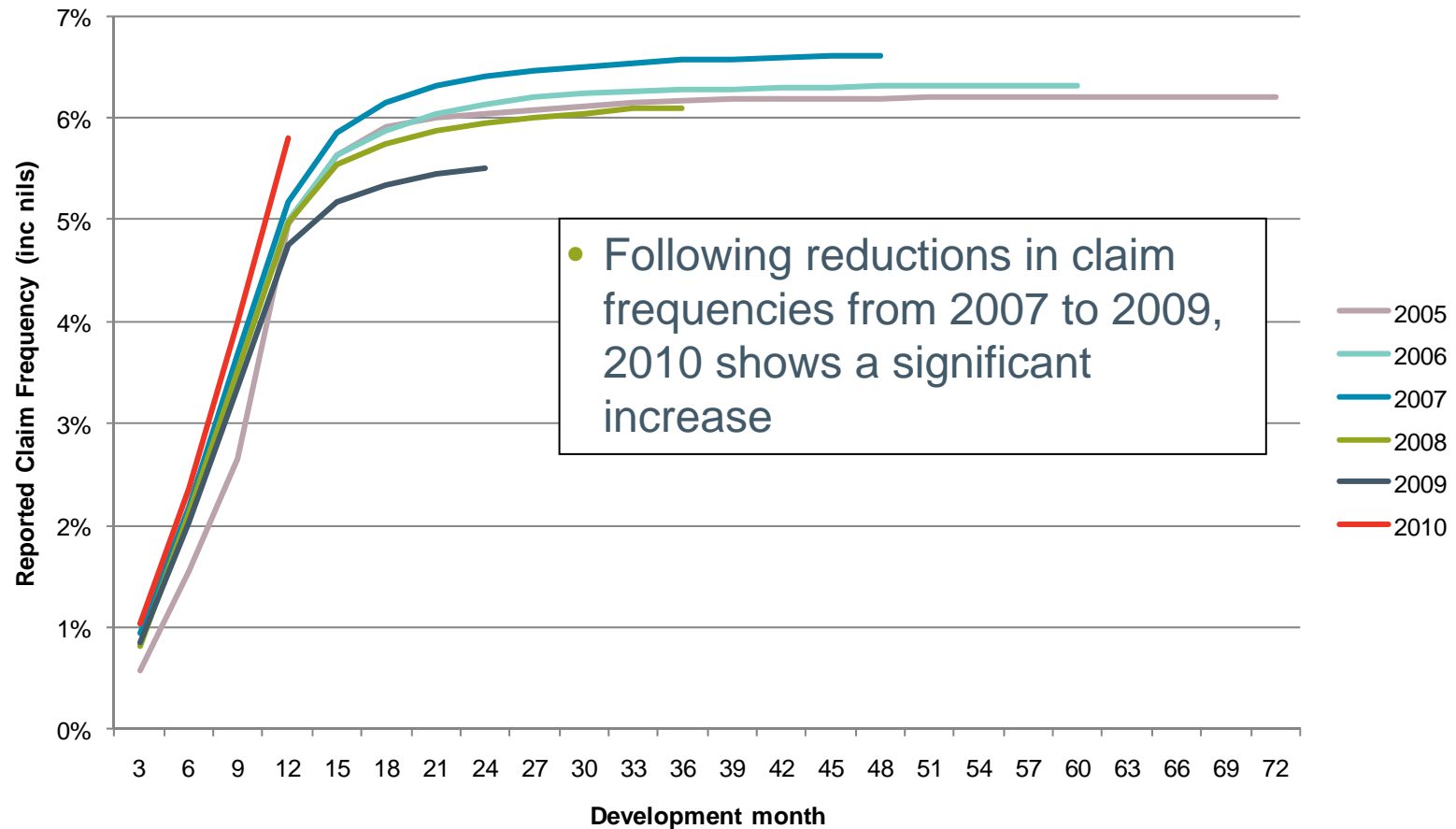
Inflation Rates
09-10: 64.7% 08-09: -14.4% 07-08: -1.7% 06-07: 7.9% 05-06: 10.2%

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.

CV - All Distribution Channels - TPD

Reported Claim Frequency (inc nils)



• Following reductions in claim frequencies from 2007 to 2009, 2010 shows a significant increase

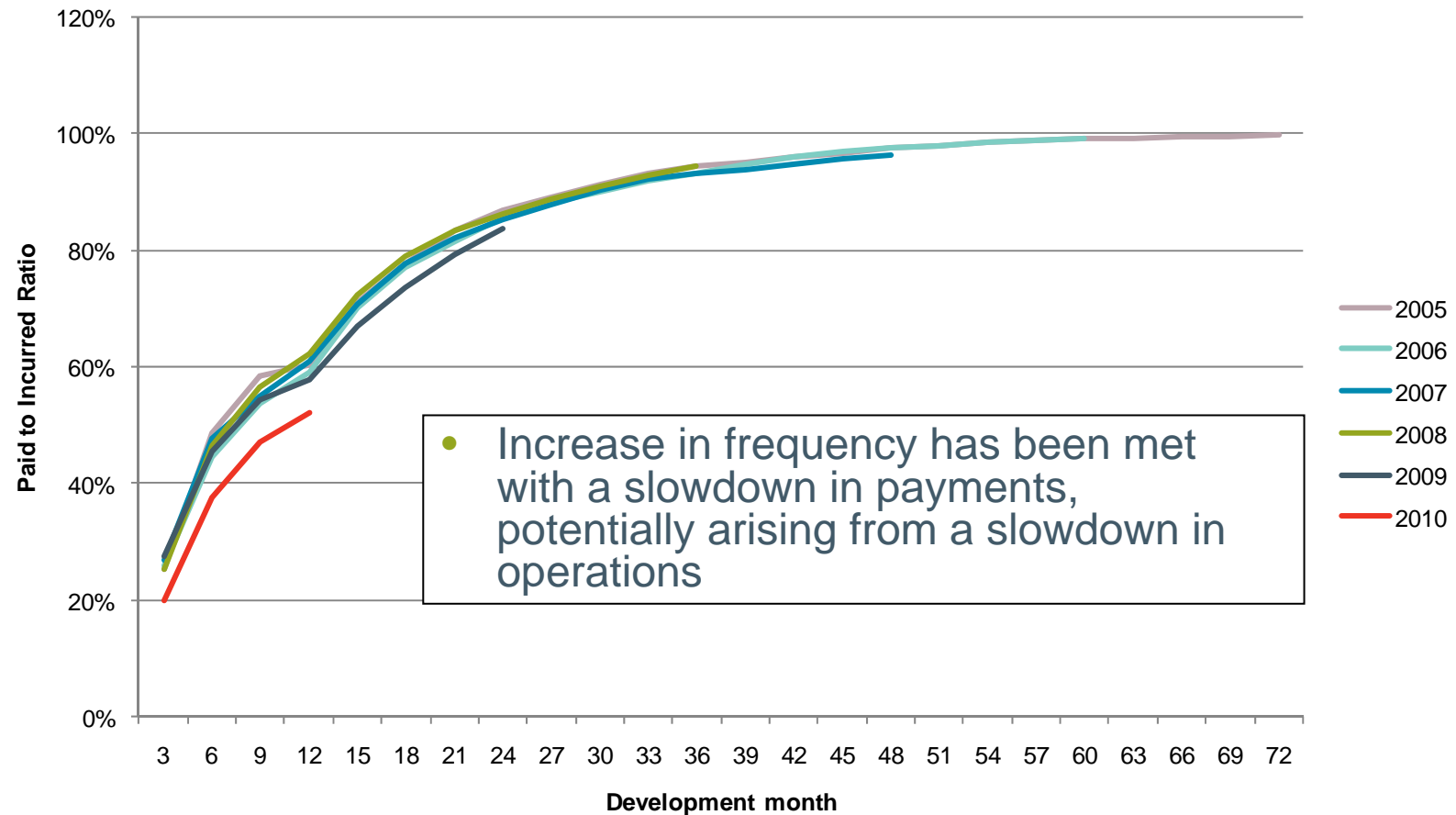
Inflation Rates

09-10: 22.2% 08-09: -7.6% 07-08: -7.2% 06-07: 4.8% 05-06: 1.9%

CV

CV - All Distribution Channels - TPD

Paid to Incurred Ratio

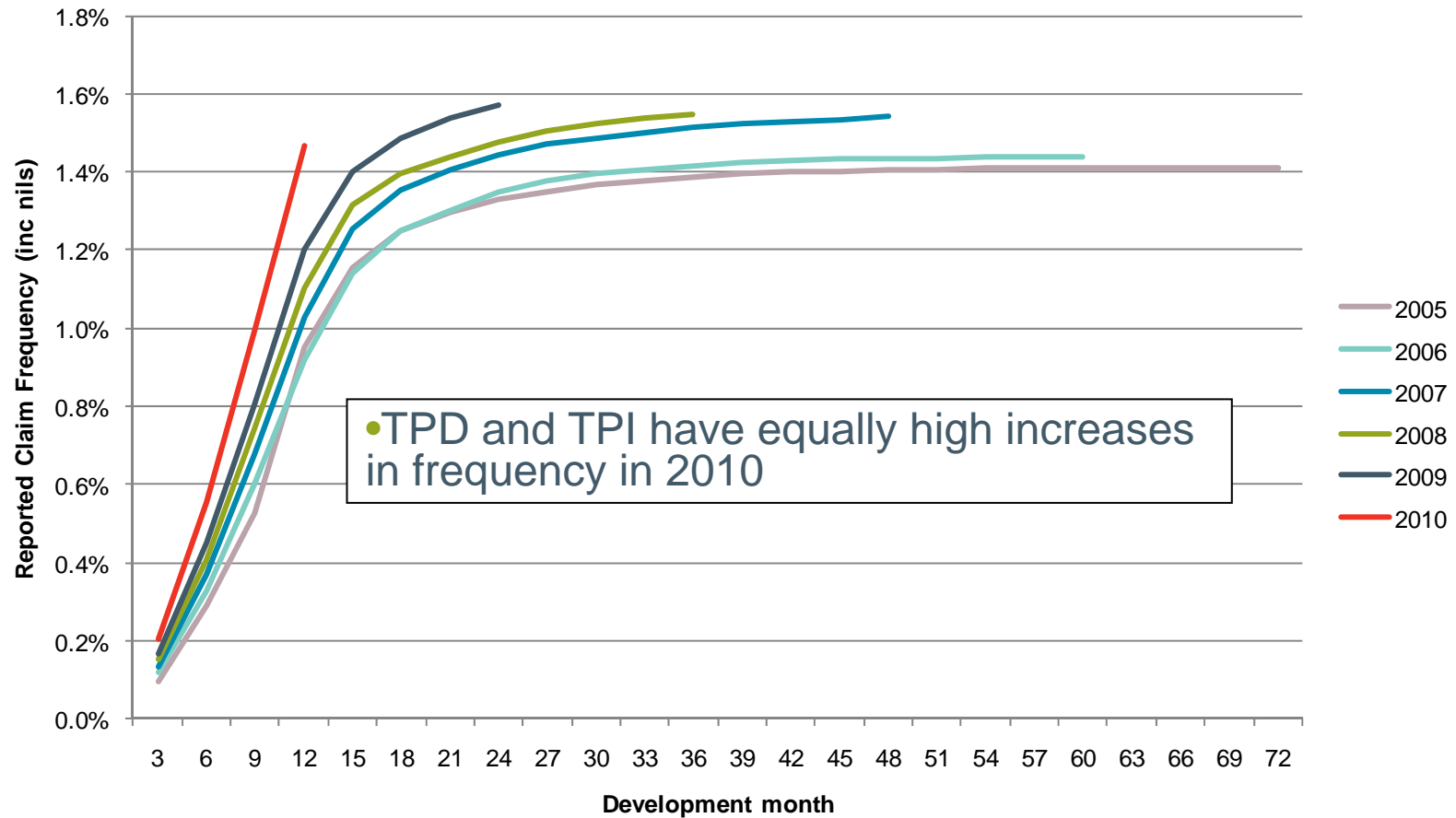


Inflation Rates
09-10: -9.9% 08-09: -3% 07-08: 1.3% 06-07: -1.3% 05-06: 0.2%

CV

CV - All Distribution Channels - TPI Capped

Reported Claim Frequency (inc nils)

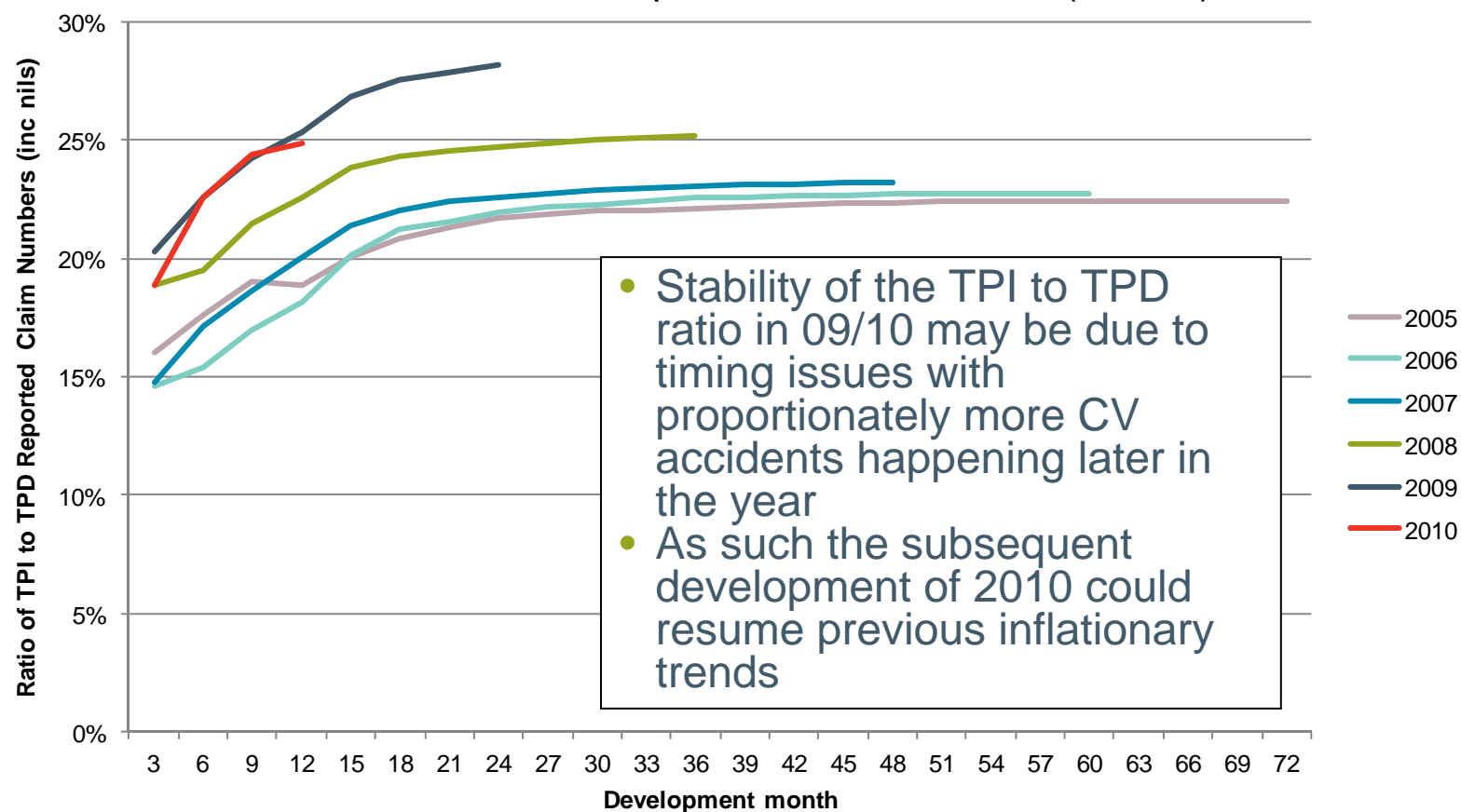


Inflation Rates
09-10: 21.9% 08-09: 6.5% 07-08: 2.4% 06-07: 7.5% 05-06: 2%

CV

CV - All Distribution Channels

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



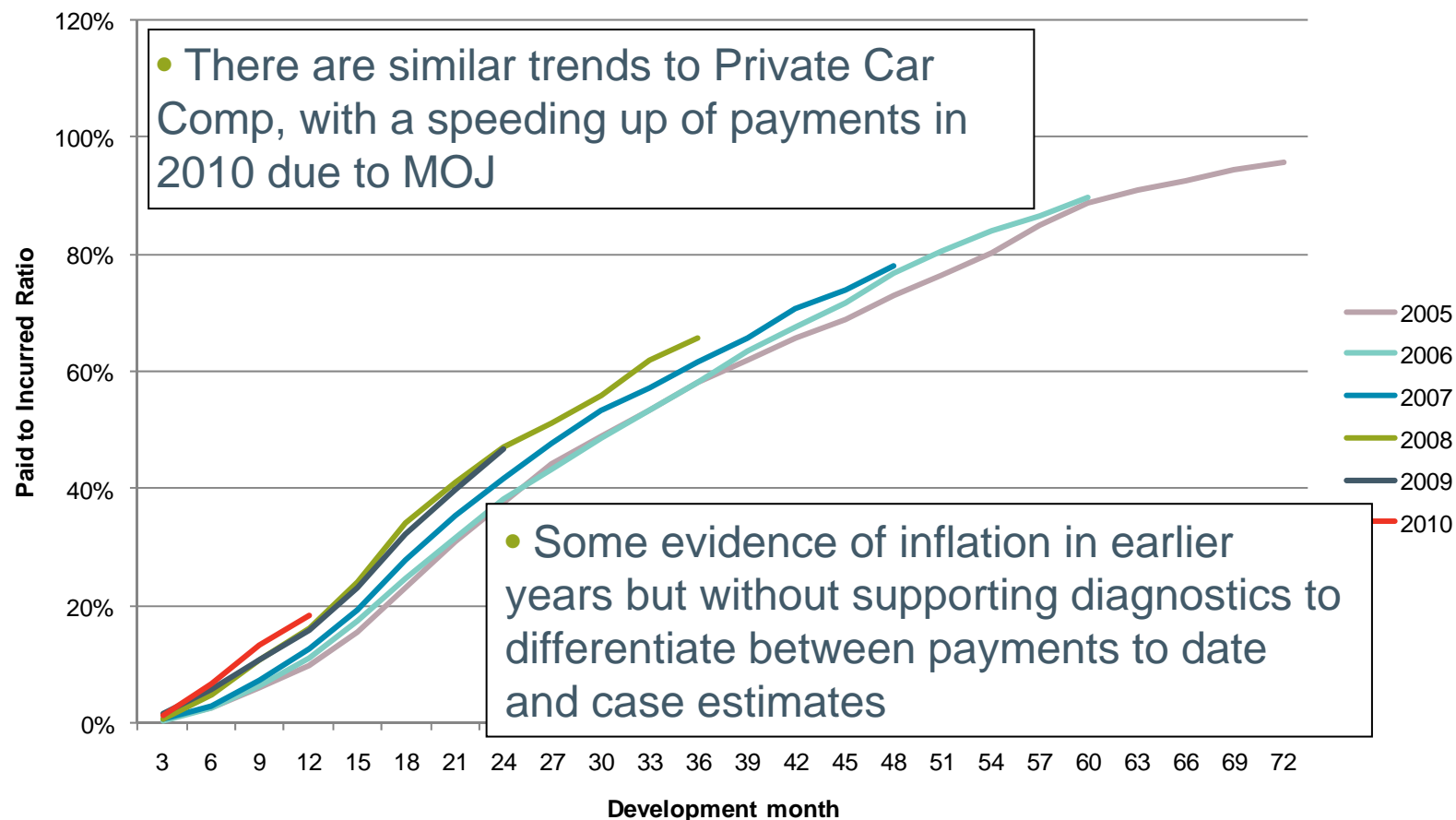
Inflation Rates

09-10: -1.7% 08-09: 13.9% 07-08: 9.3% 06-07: 2.4% 05-06: 1.4%

CV

CV - All Distribution Channels - TPI Capped

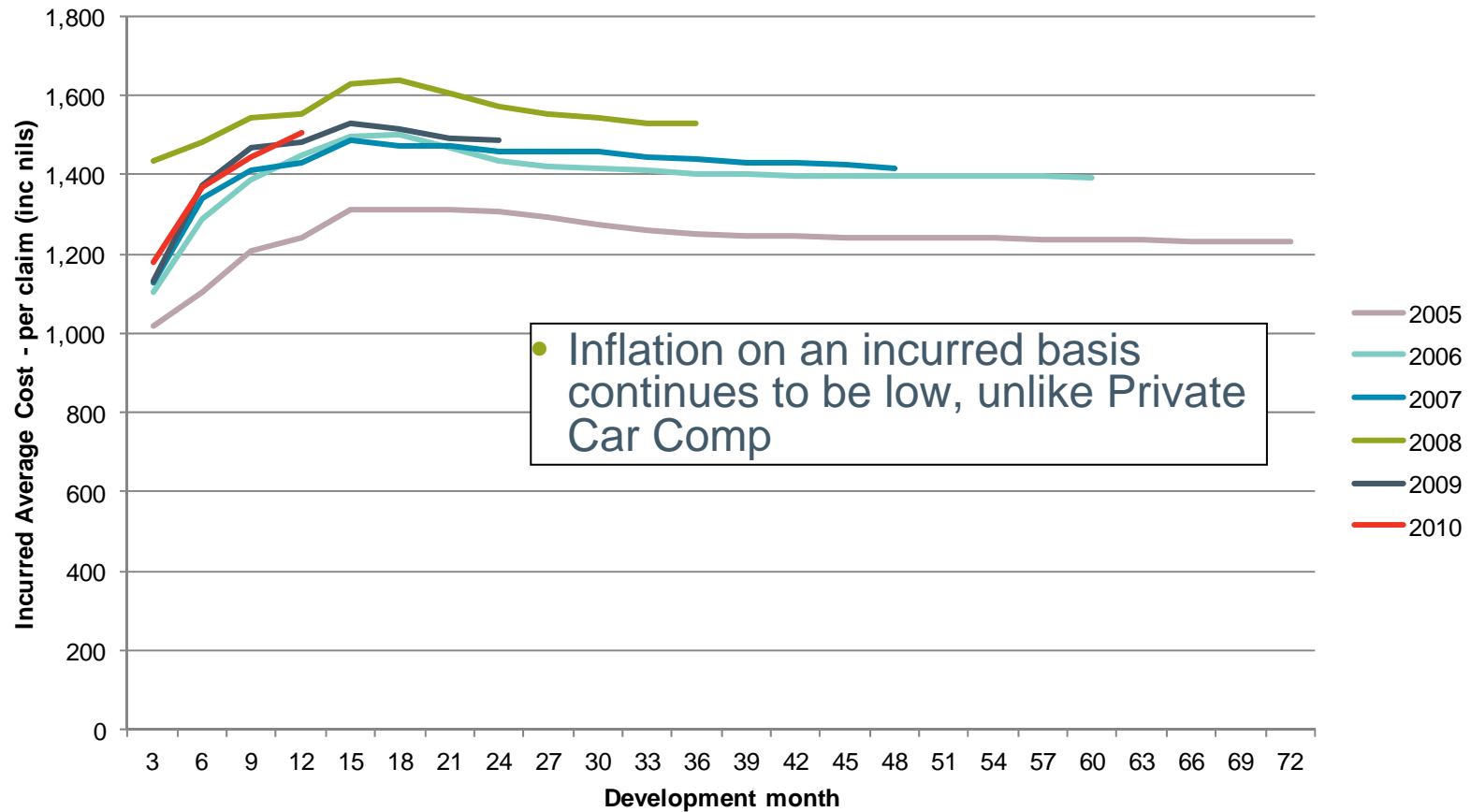
Paid to Incurred Ratio



Fleet

Fleet - All Distribution Channels - TPD

Incurred Average Cost - per claim (inc nils)

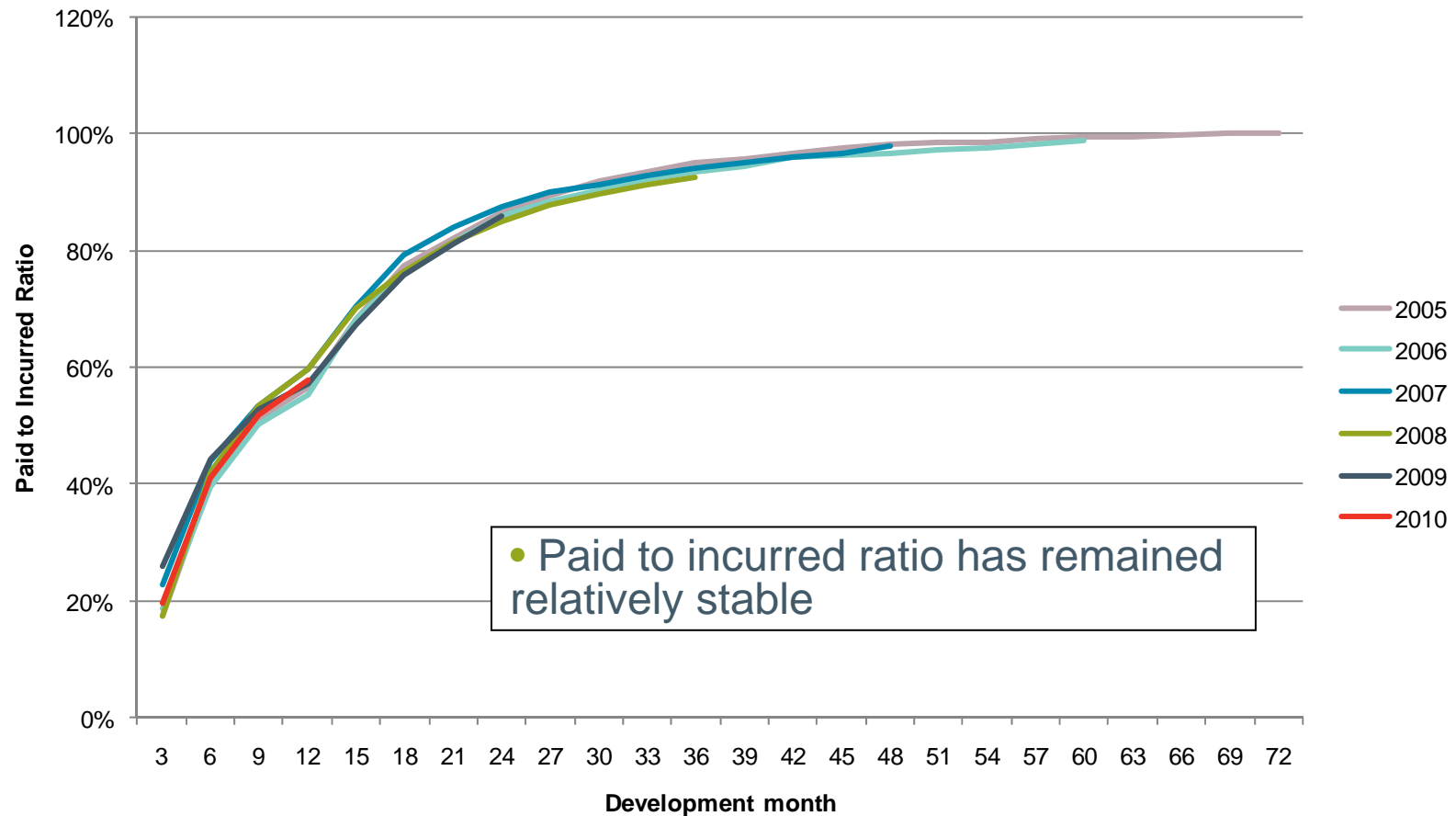


Inflation Rates

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

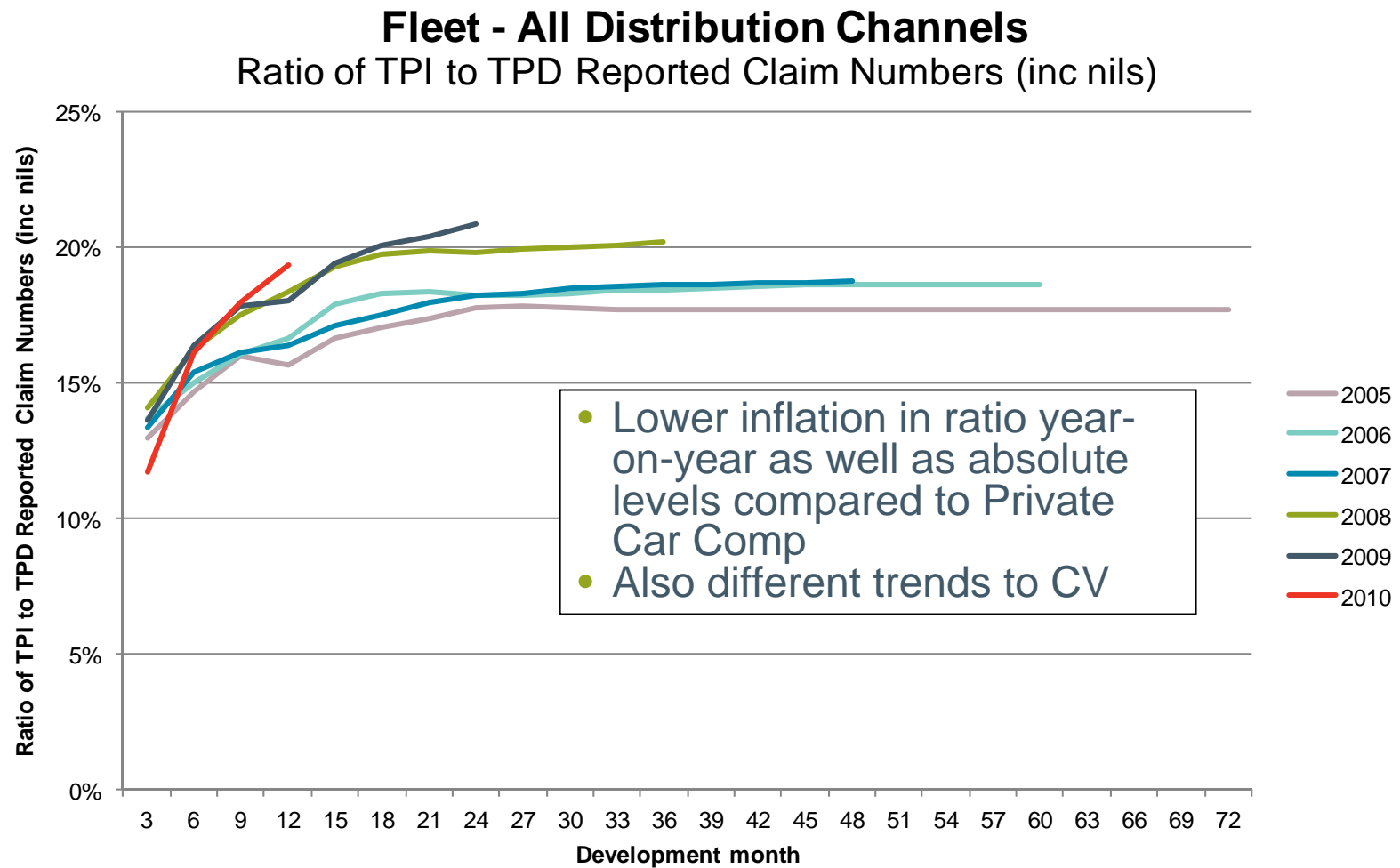
Fleet

Fleet - All Distribution Channels - TPD Paid to Incurred Ratio



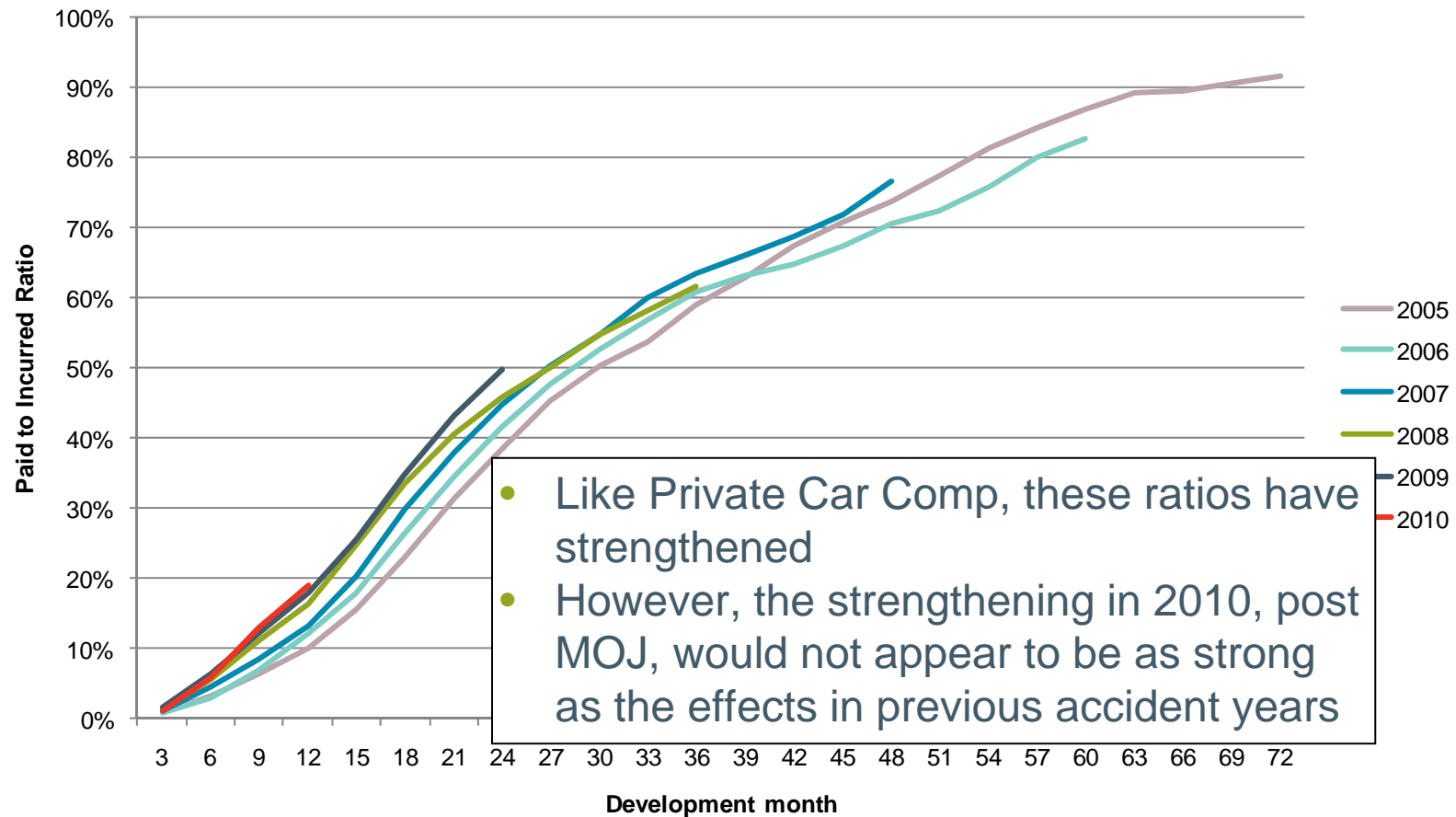
Inflation Rates
09-10: 1.6% 08-09: 1.2% 07-08: -1.7% 06-07: 1.2% 05-06: -0.7%

Fleet



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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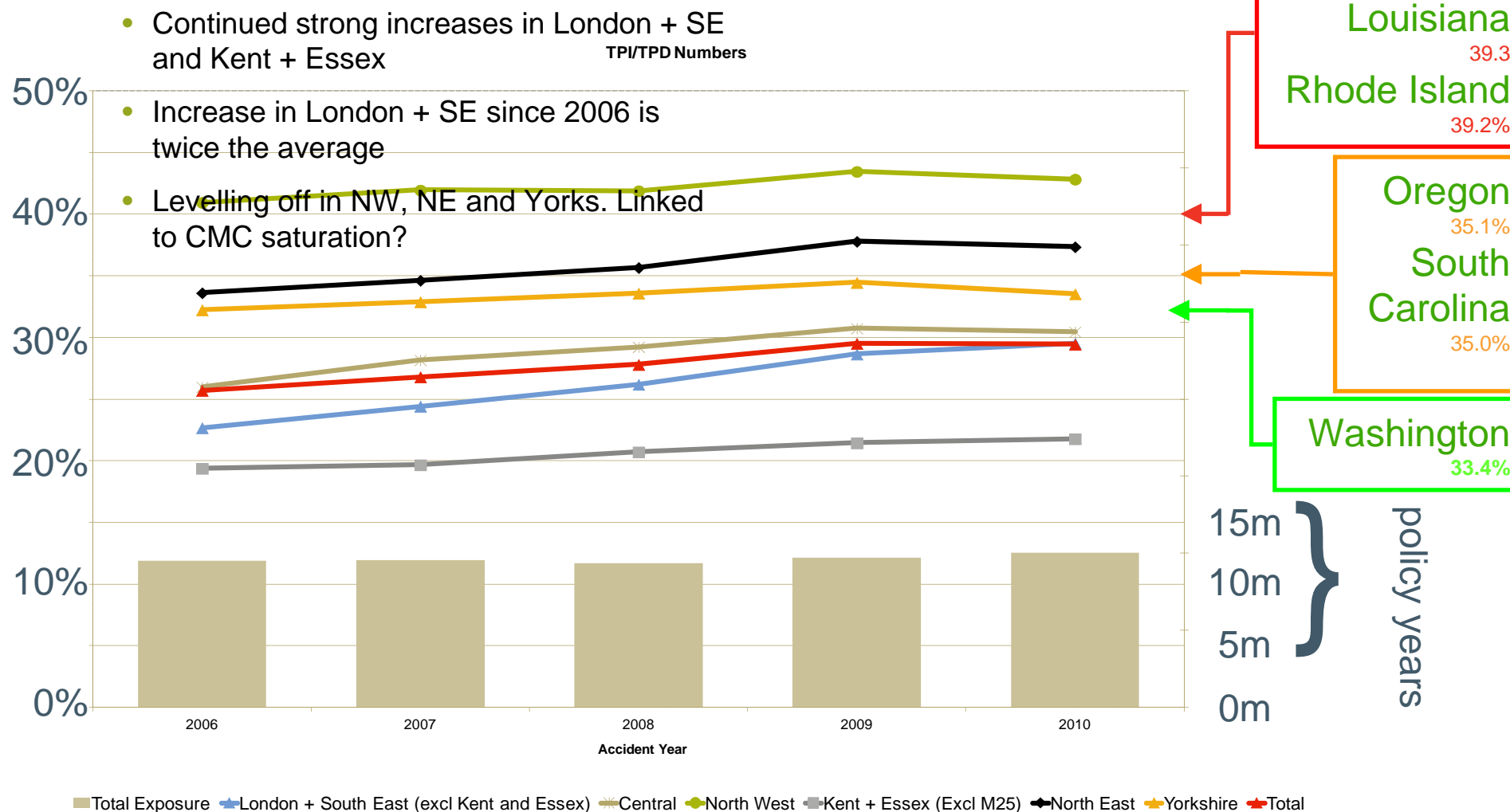
Appendices

Private Car Comprehensive Experience by TV Region

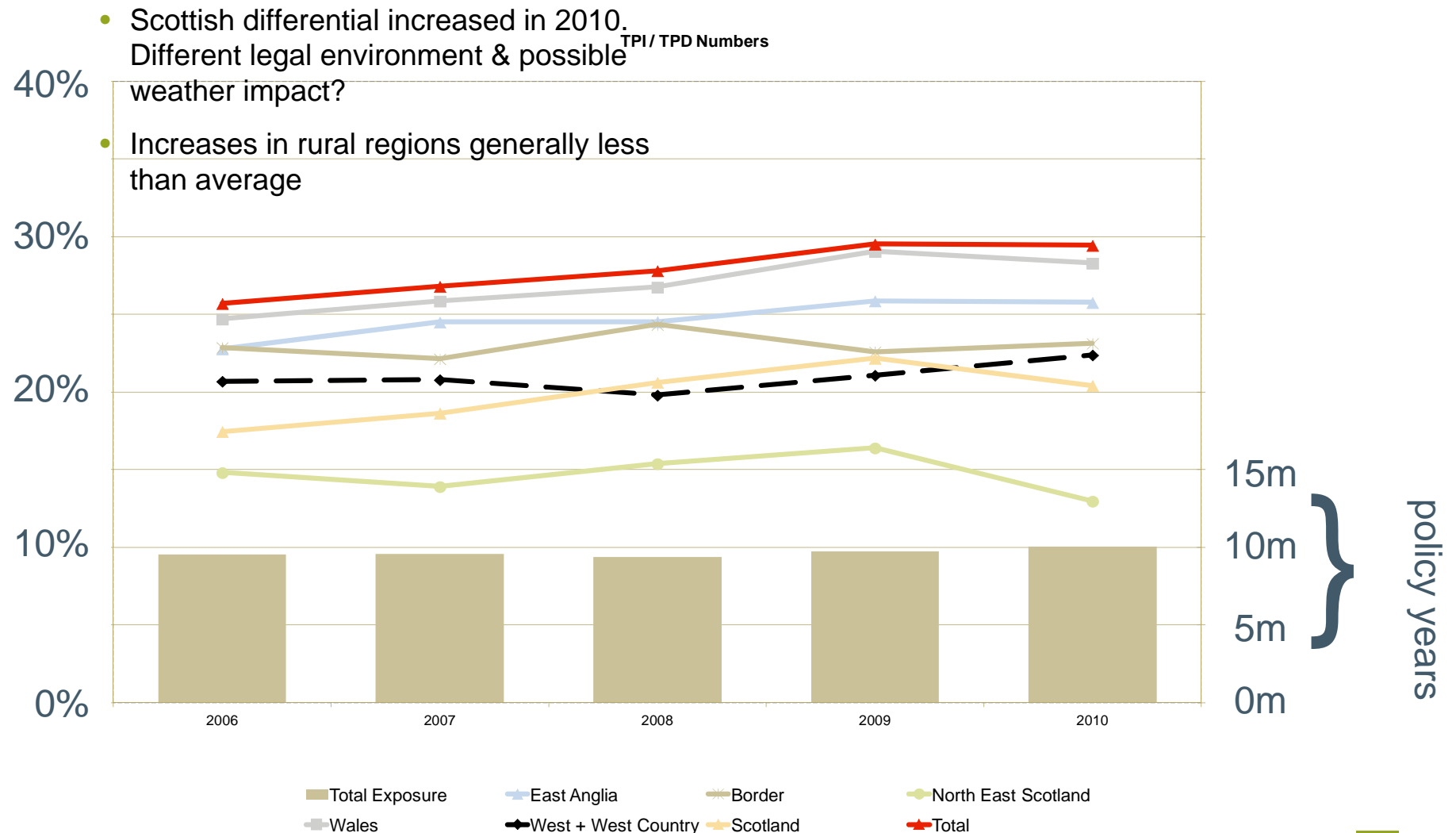
- Latest reported claim numbers and incurred claim amounts were provided split by region
- These data were aggregated and summaries were produced which show how key statistics vary by location in the UK
- These statistics are based on latest positions (ie on claim information excluding any estimate for IBNR or IBNER claims or amounts)
- The analysis was restricted to Private Car Comprehensive due to insufficient quantities of data in other lines of business
- Relative trends generally reinforce the trends identified last year.

TPI / TPD numbers by TV region (Private Car Comprehensive) - NW higher than worst in US

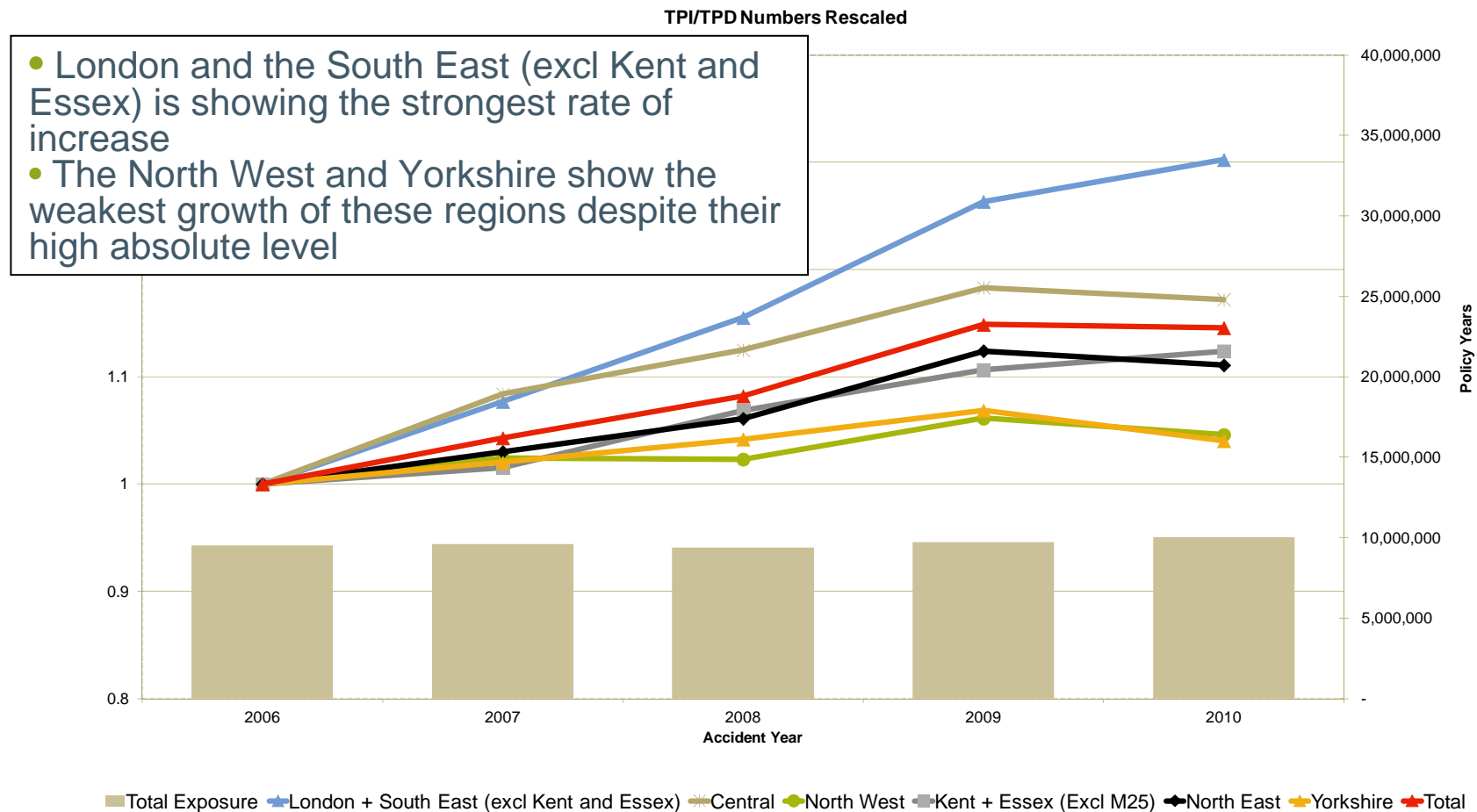
USA's most litigious States



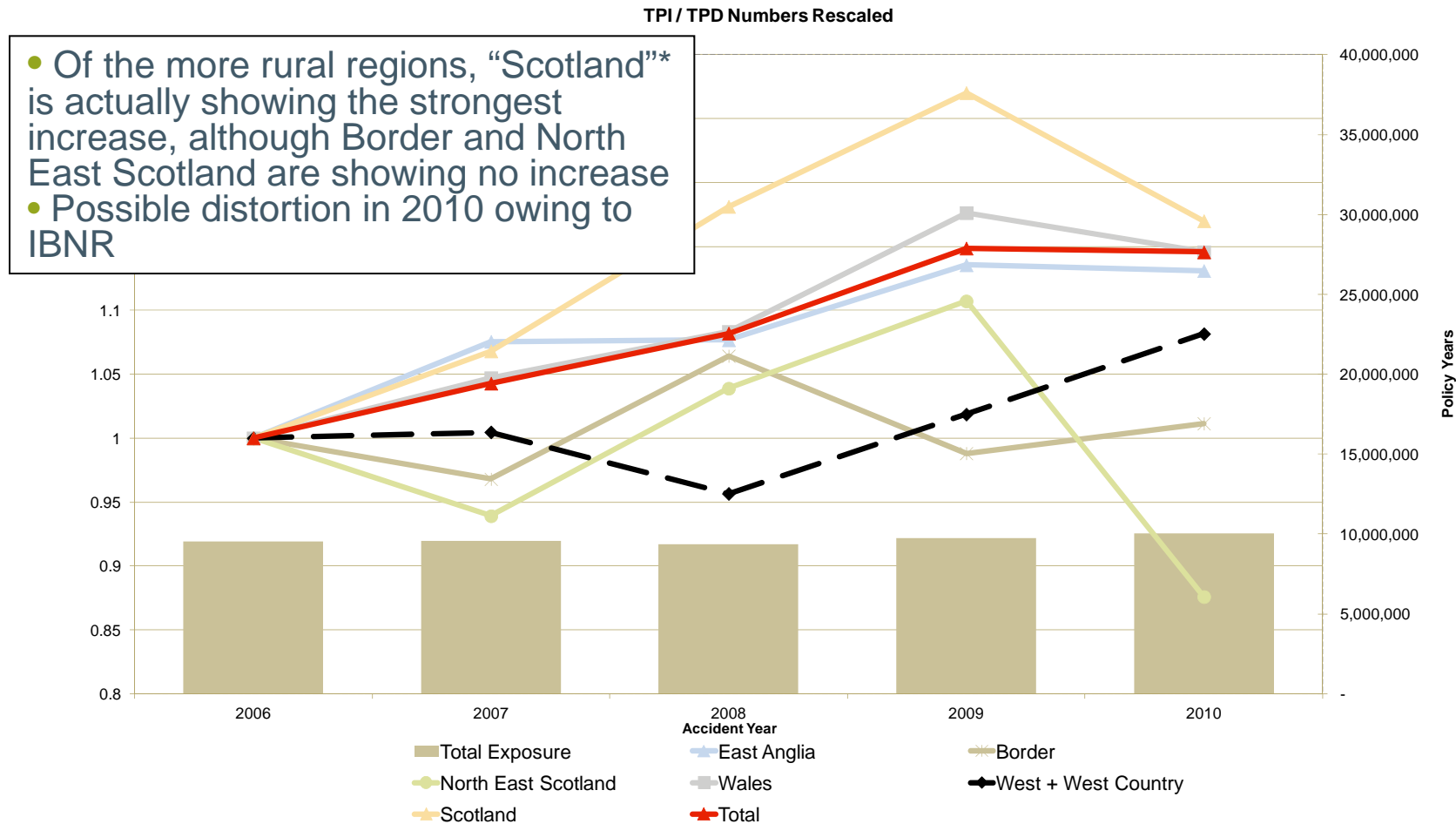
TPI / TPD numbers by TV region (Private Car Comprehensive) – NE Scotland < 1/3rd NW England



Change in TPI / TPD Numbers (Private Car Comprehensive)

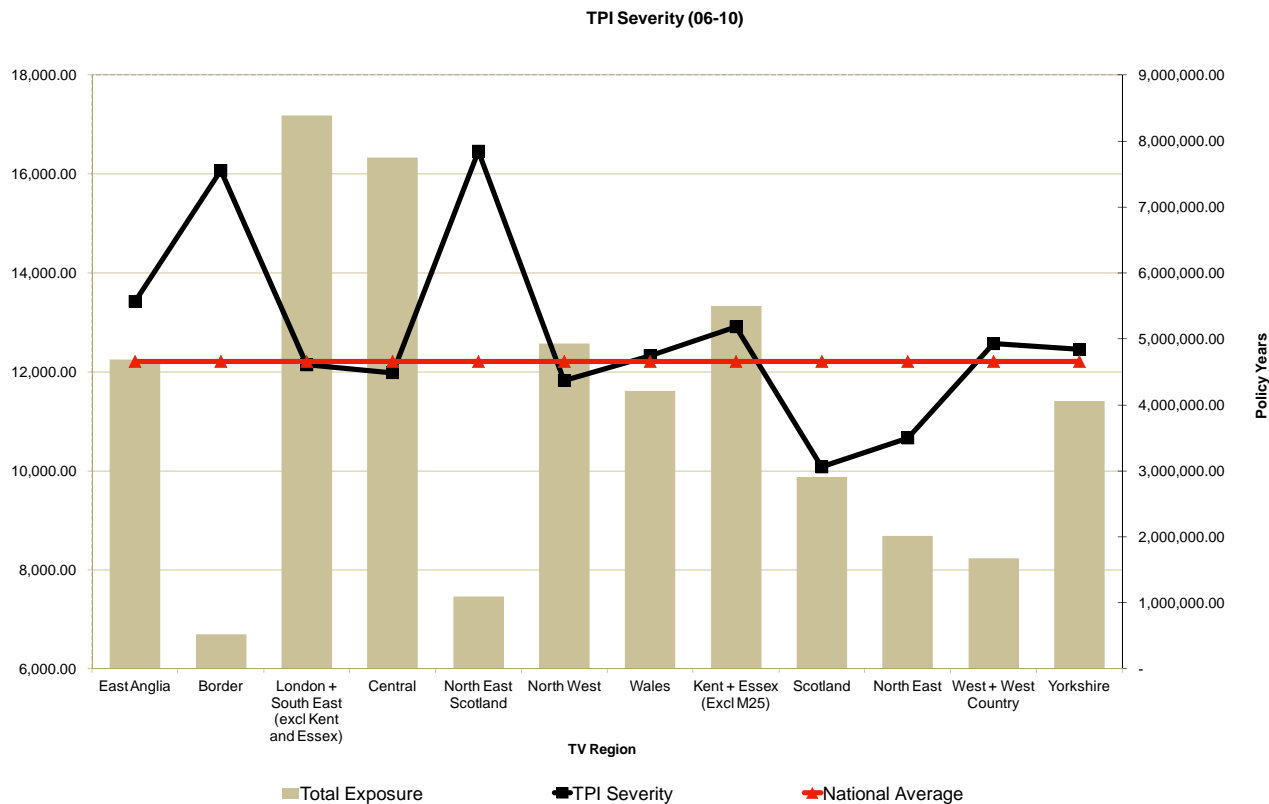


Change in TPI / TPD Numbers (Private Car Comprehensive)



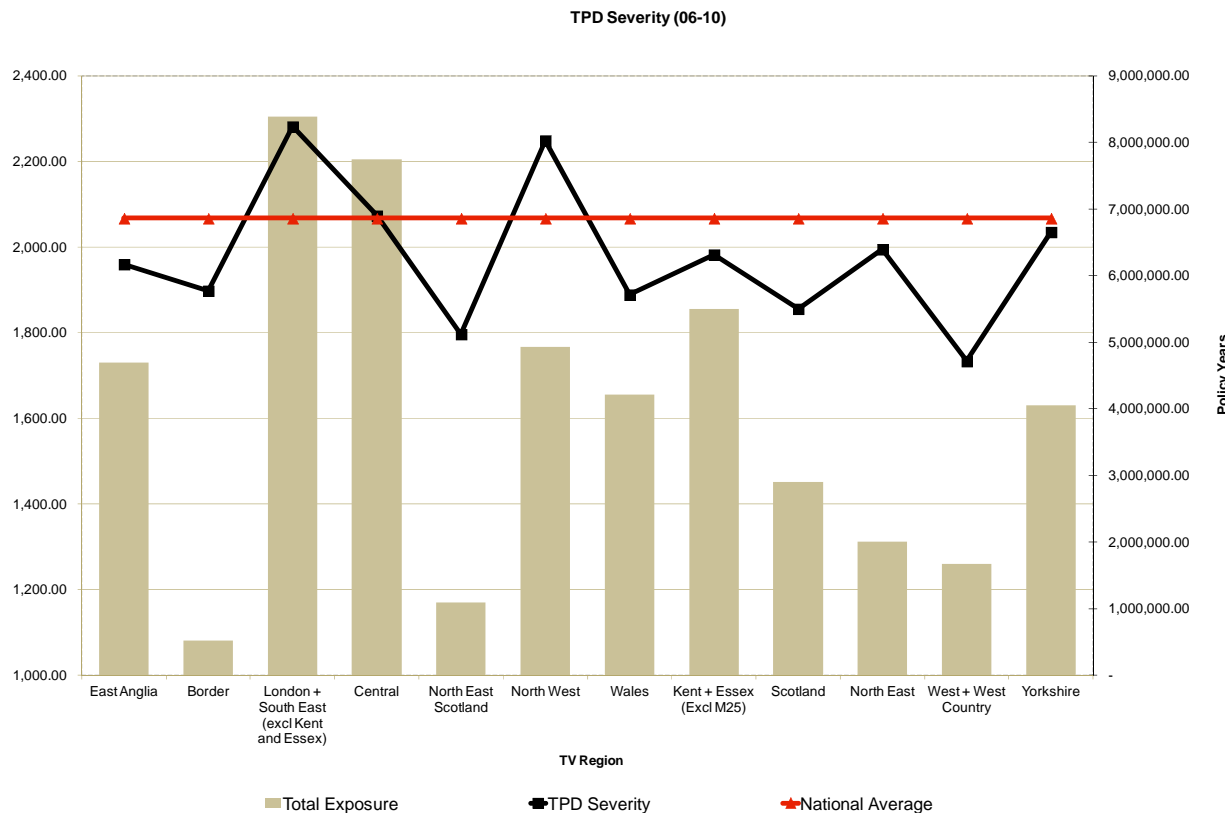
^{*} “Scotland” refers to the part of Scotland excluding North East Scotland and Border

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



- London severity in line with average, NW only slightly below.
- Rural areas display higher severities, perhaps owing to a higher proportion of large claims
- “Scotland” and NE England have much lower severity
- Uncapped data

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



- Highest TPD severities in London and NW
- Regions with high TPI frequency and low TPI severity display relatively high TPD severity
- 2010 Working Party showed a correlation between high TPI frequency and CMC activity

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Excess of Capped TPI Analysis

Introduction

- Analysis was performed for Private Car Comprehensive only
- 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*
- 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.

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

Excess of Capped TPI Analysis

Data Summary

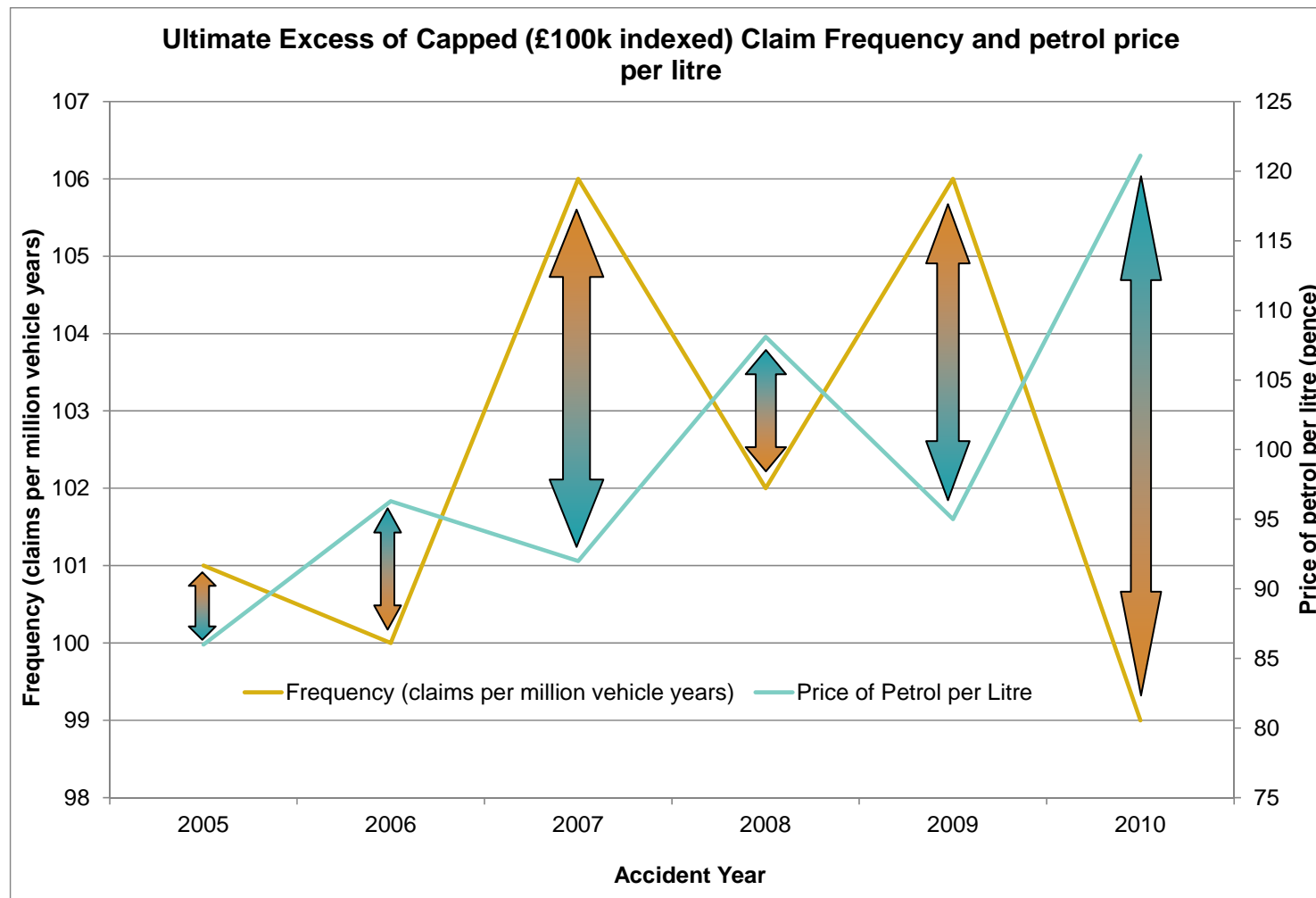
Summary of Excess of Capped TPI Data

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	

- Data contains over 110 million earned vehicle years, each accident year representing over 70% of the FSA-regulated market
- In total, there are around 11,000 claims

Large claims frequency vs. petrol prices

Increases in petrol prices lead to decreases in large bodily injury claims and vice versa

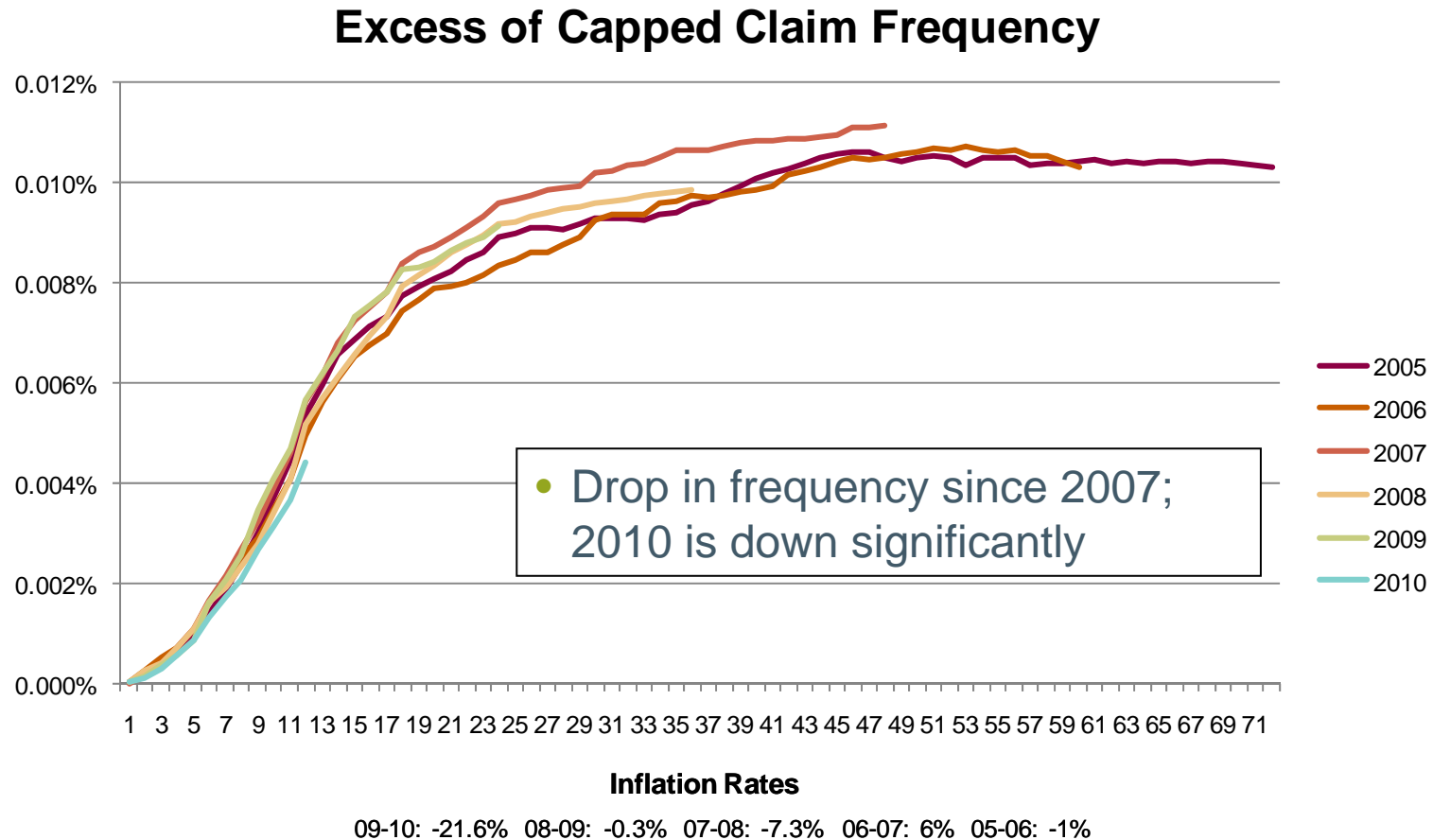


Petrol price data from the Automobile Association

http://www.theaa.com/motoring_advice/running_costs/archive.html

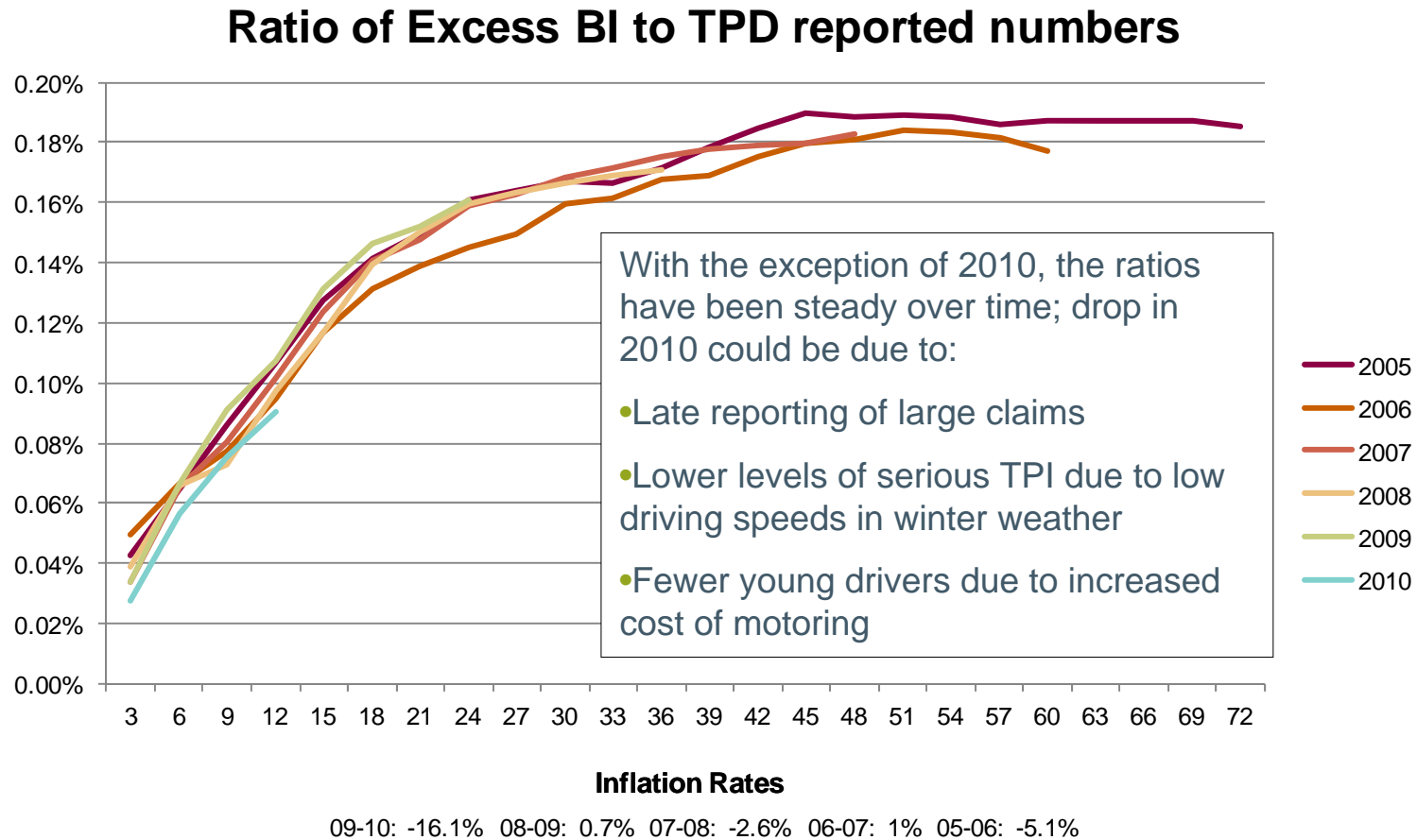
Excess of Capped TPI Analysis

Data Trends



Excess of Capped TPI Analysis

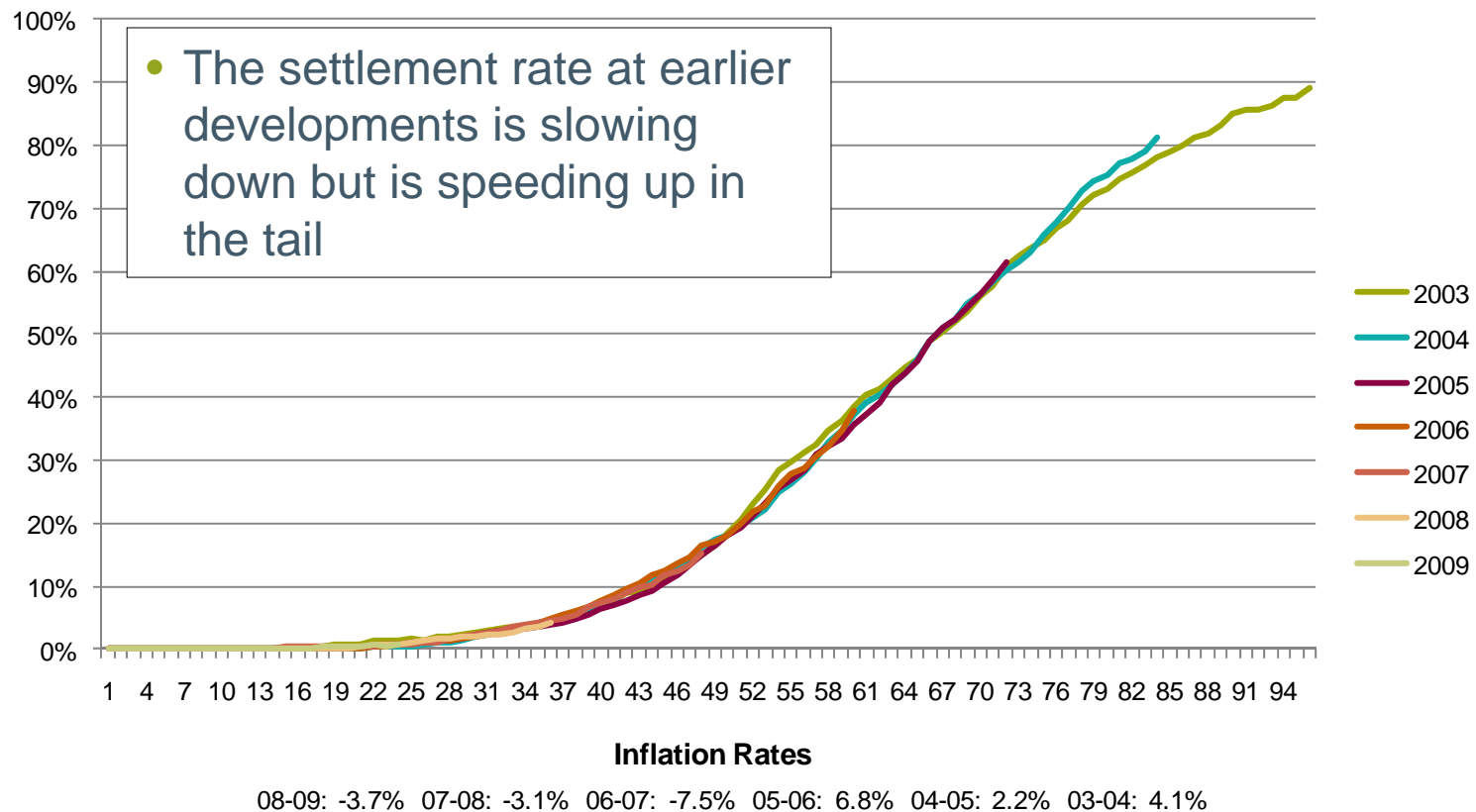
Data Trends



Excess of Capped TPI Analysis

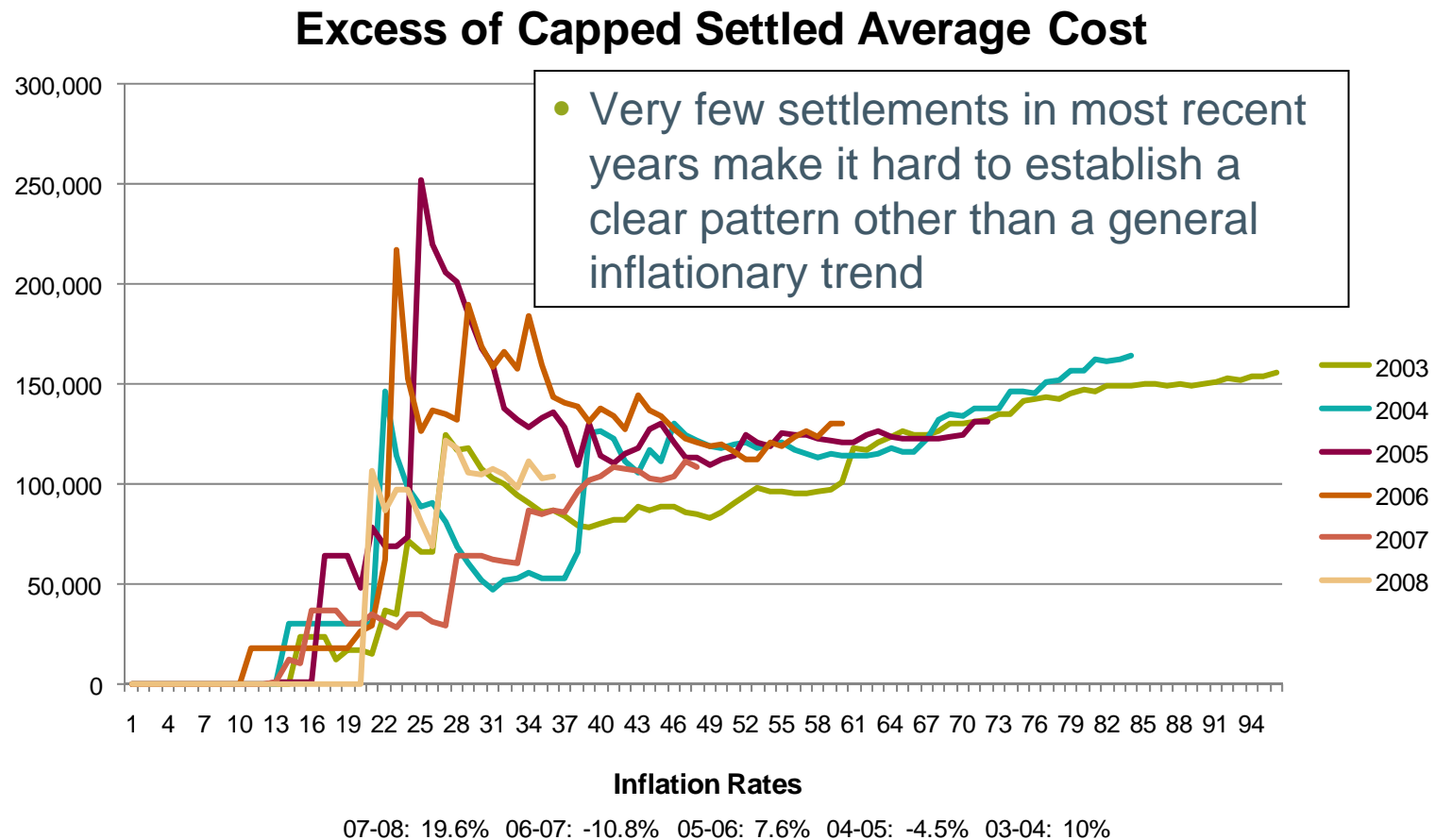
Data Trends

Excess of Capped Settlement Rate



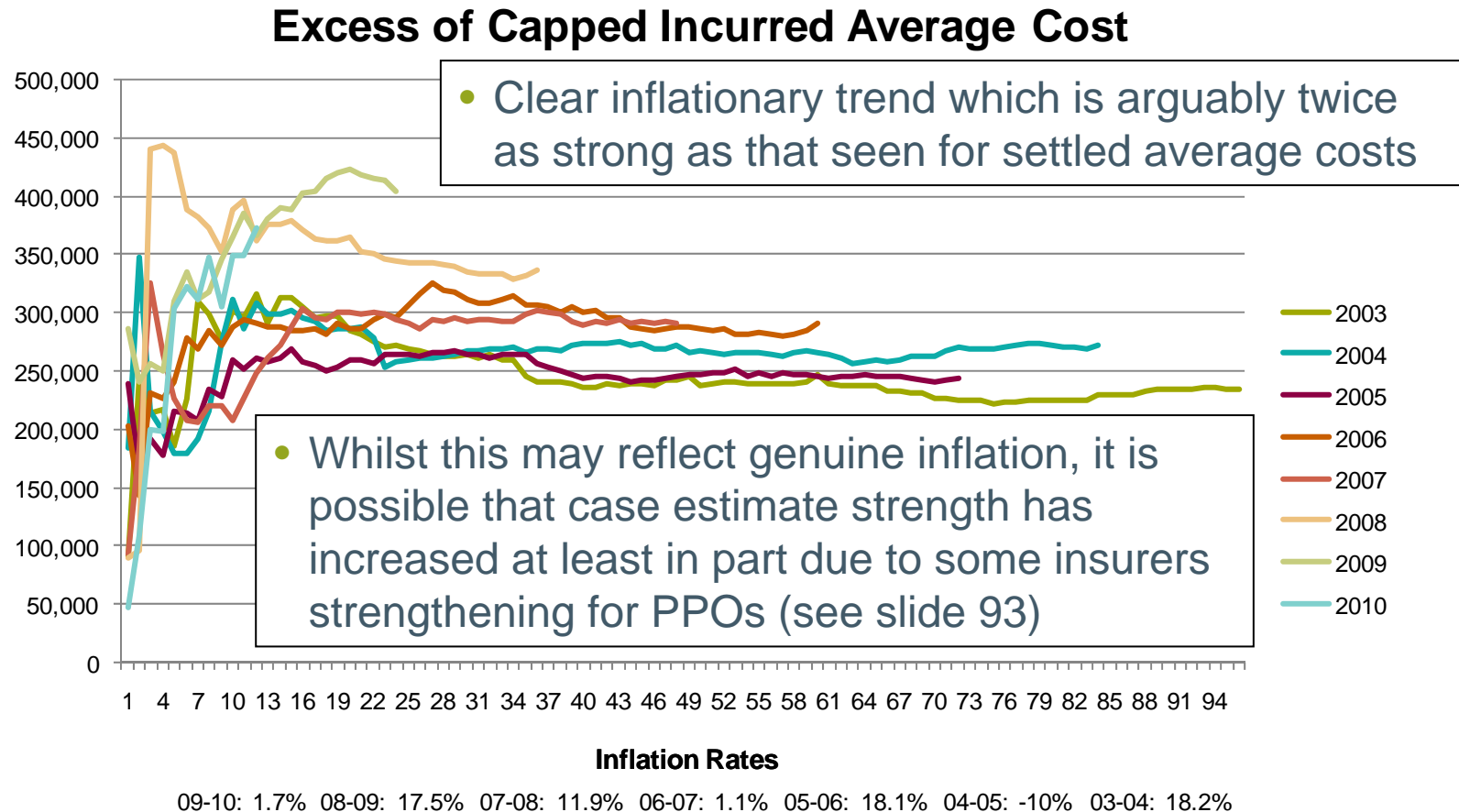
Excess of Capped TPI Analysis

Data Trends



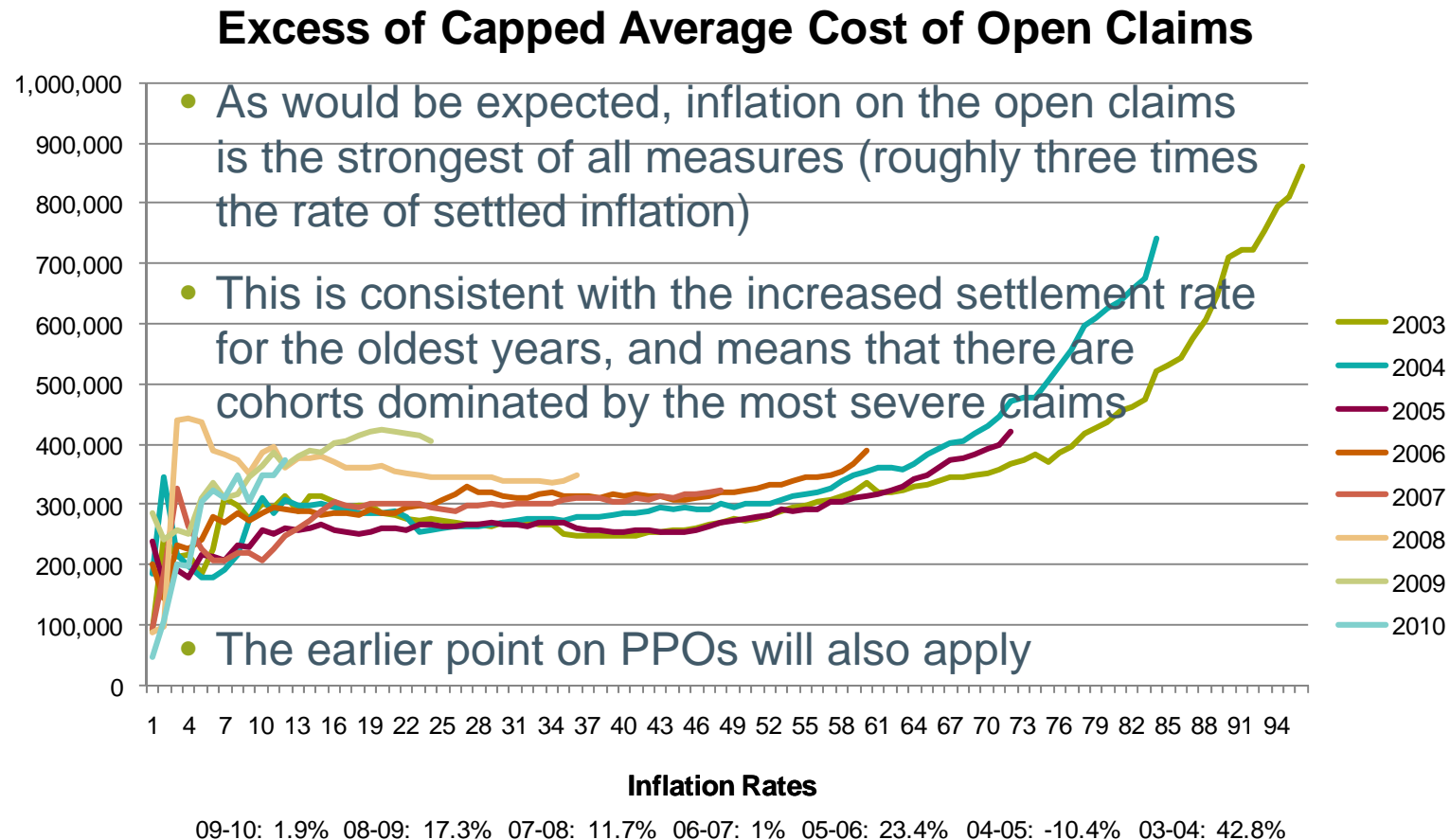
Excess of Capped TPI Analysis

Data Trends



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.

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.

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.

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

Benchmark Development - Incurred

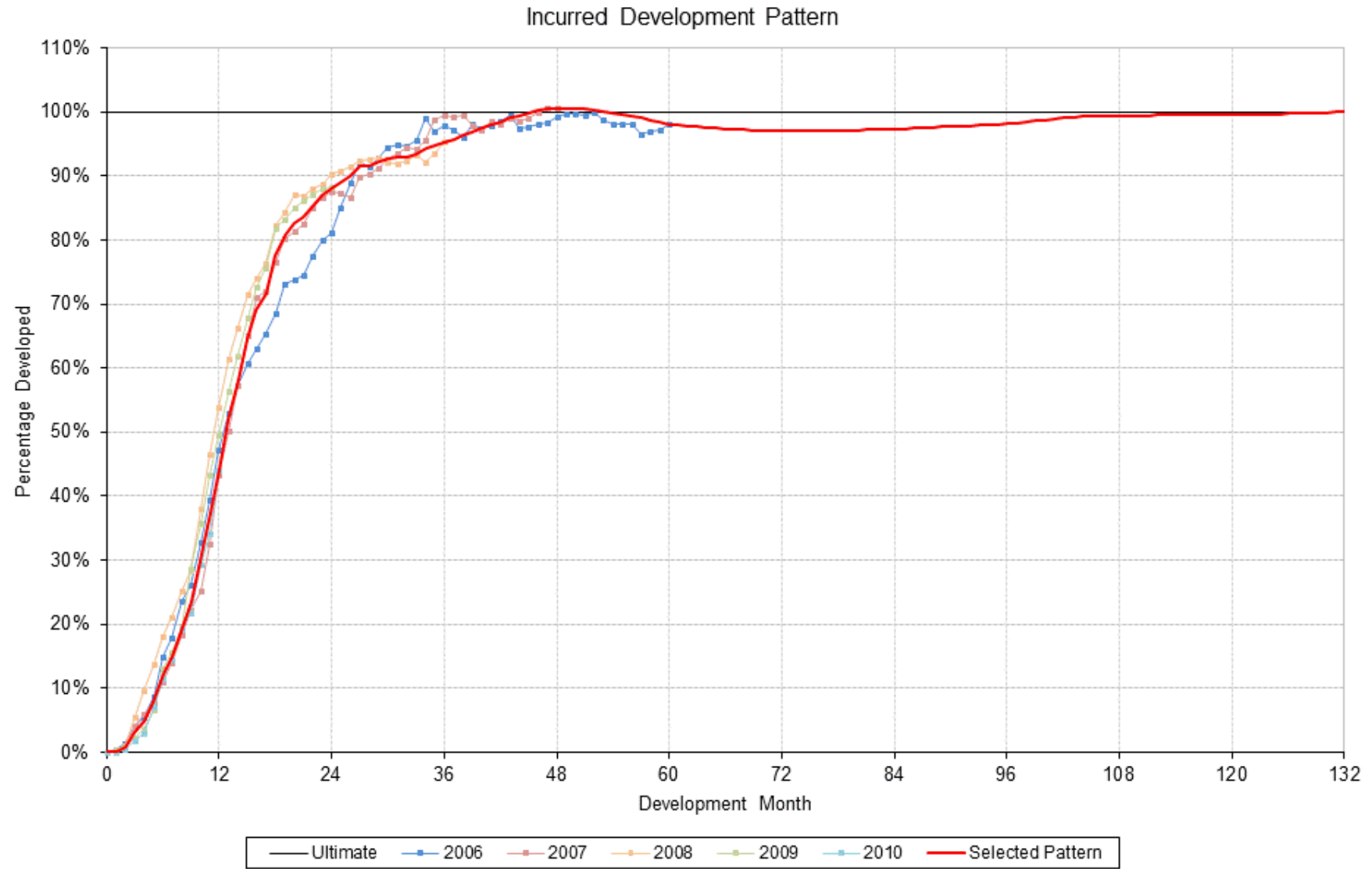
Private Car Comprehensive - Excess BI Incurred Claims Development Pattern

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%	98.8%	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...

Note important caveats on these development patterns are set out earlier in this section

Benchmark Development - Incurred



Benchmark Development - Reported

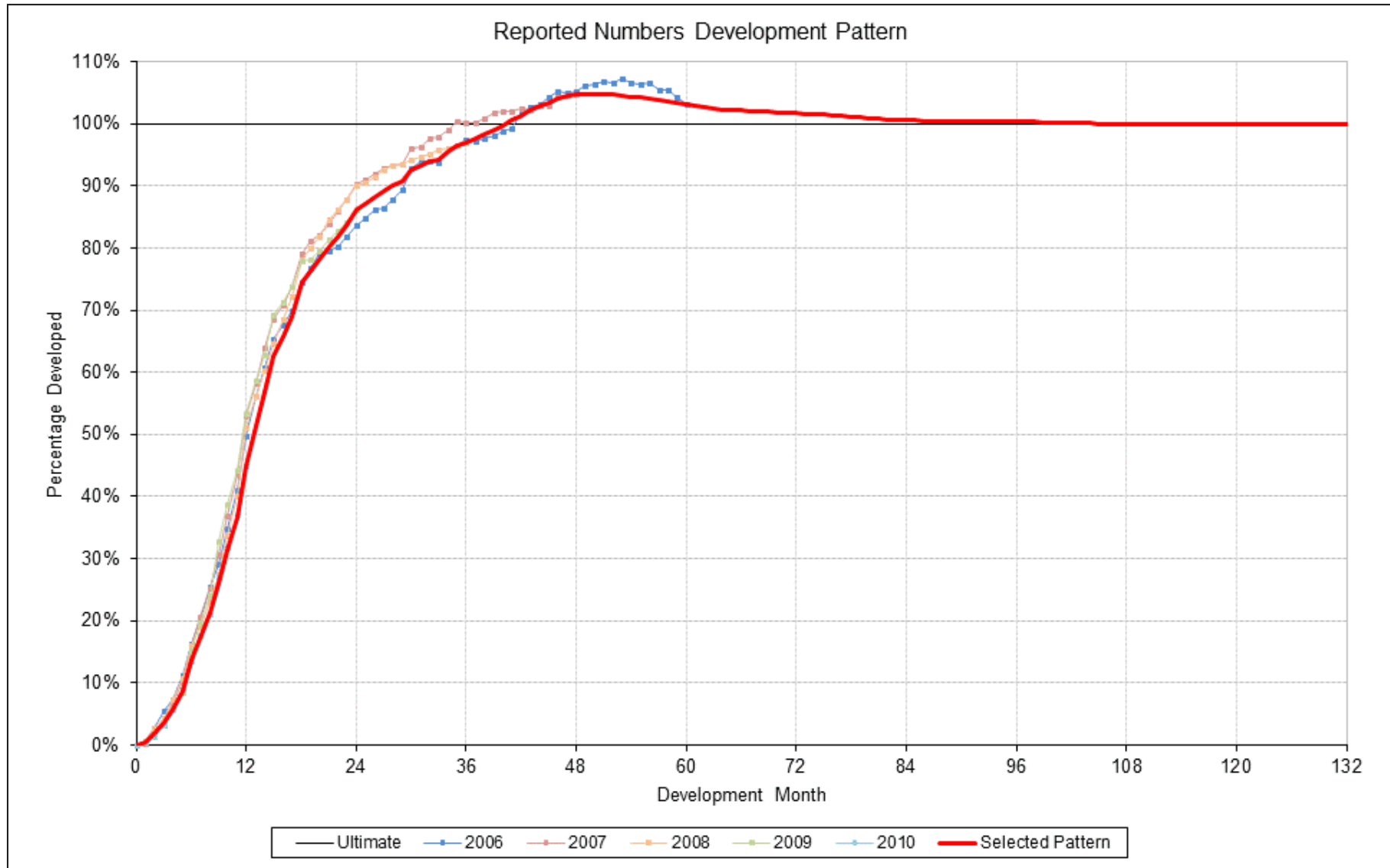
Private Car Comprehensive - Excess BI Claim Numbers Development Pattern

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%	100.0%	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...

Note important caveats on these development patterns are set out earlier in this section

Benchmark Development - Reported



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Projected Ultimate Claims

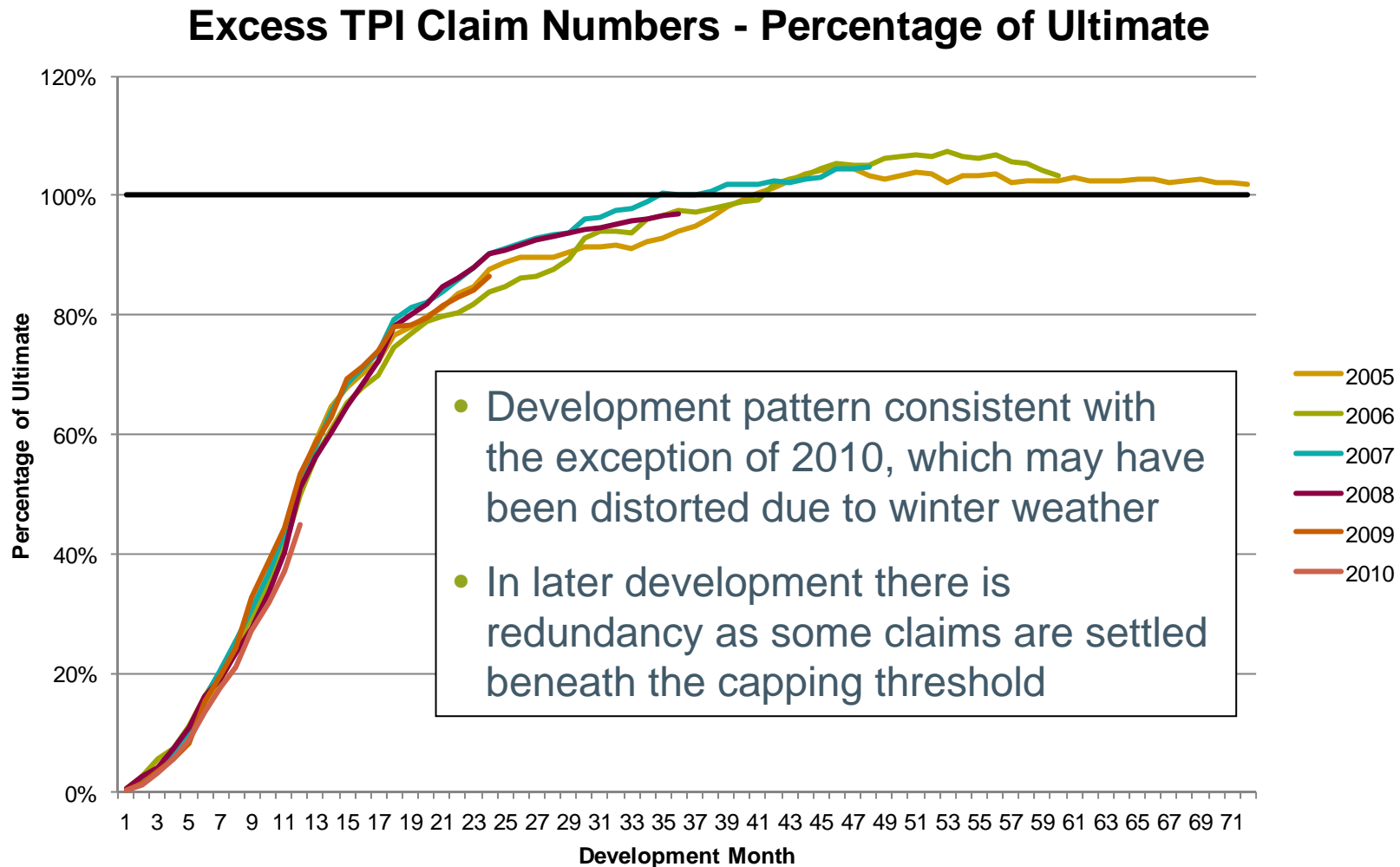
Projected Ultimate Excess of Capped TPI Results for Private Car Comprehensive

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

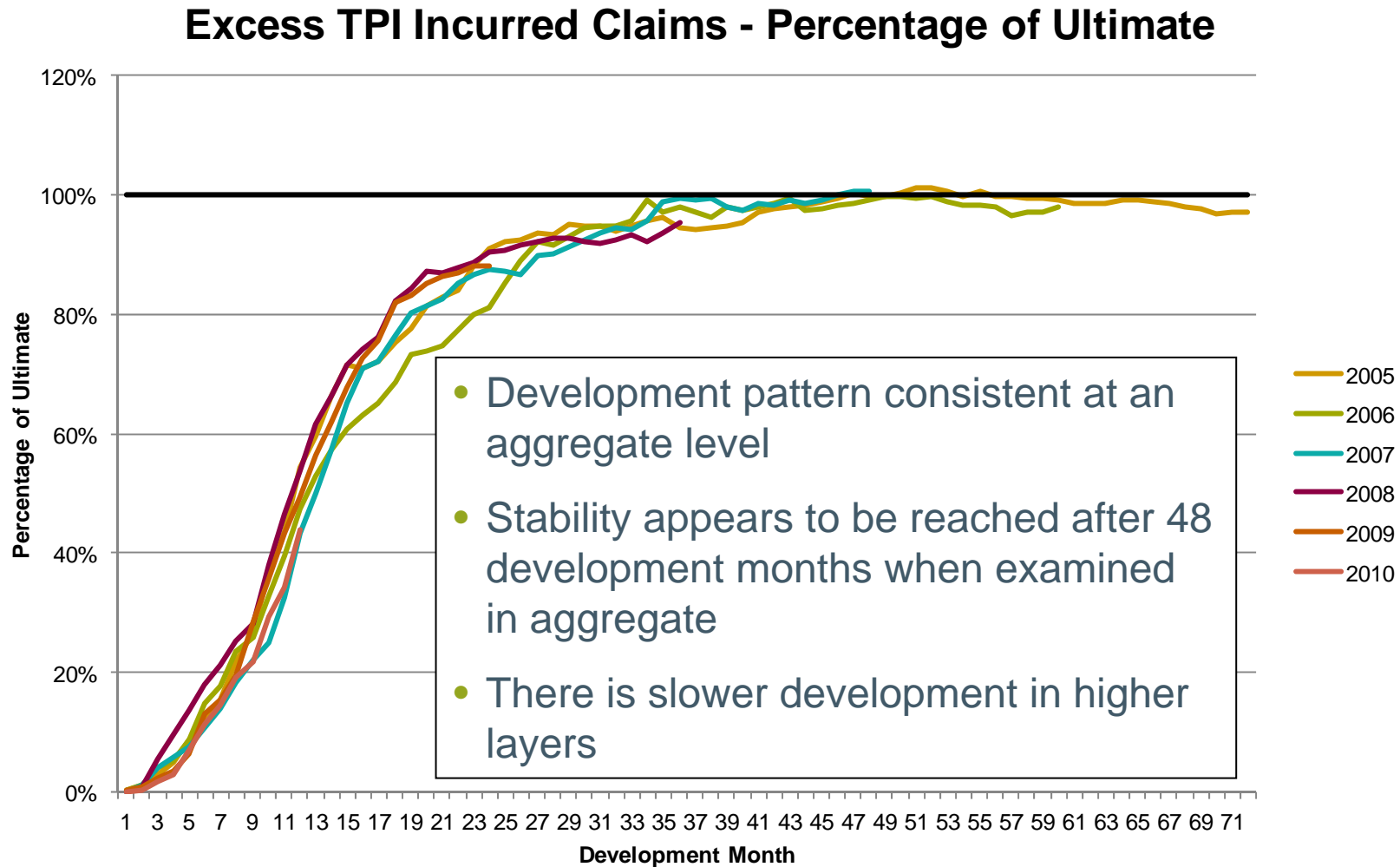
Excess of Capped TPI Analysis

Projected Ultimate Claims



Excess of Capped TPI Analysis

Projected Ultimate Claims



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	1,358
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	1.0
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

Excess of Capped TPI Analysis

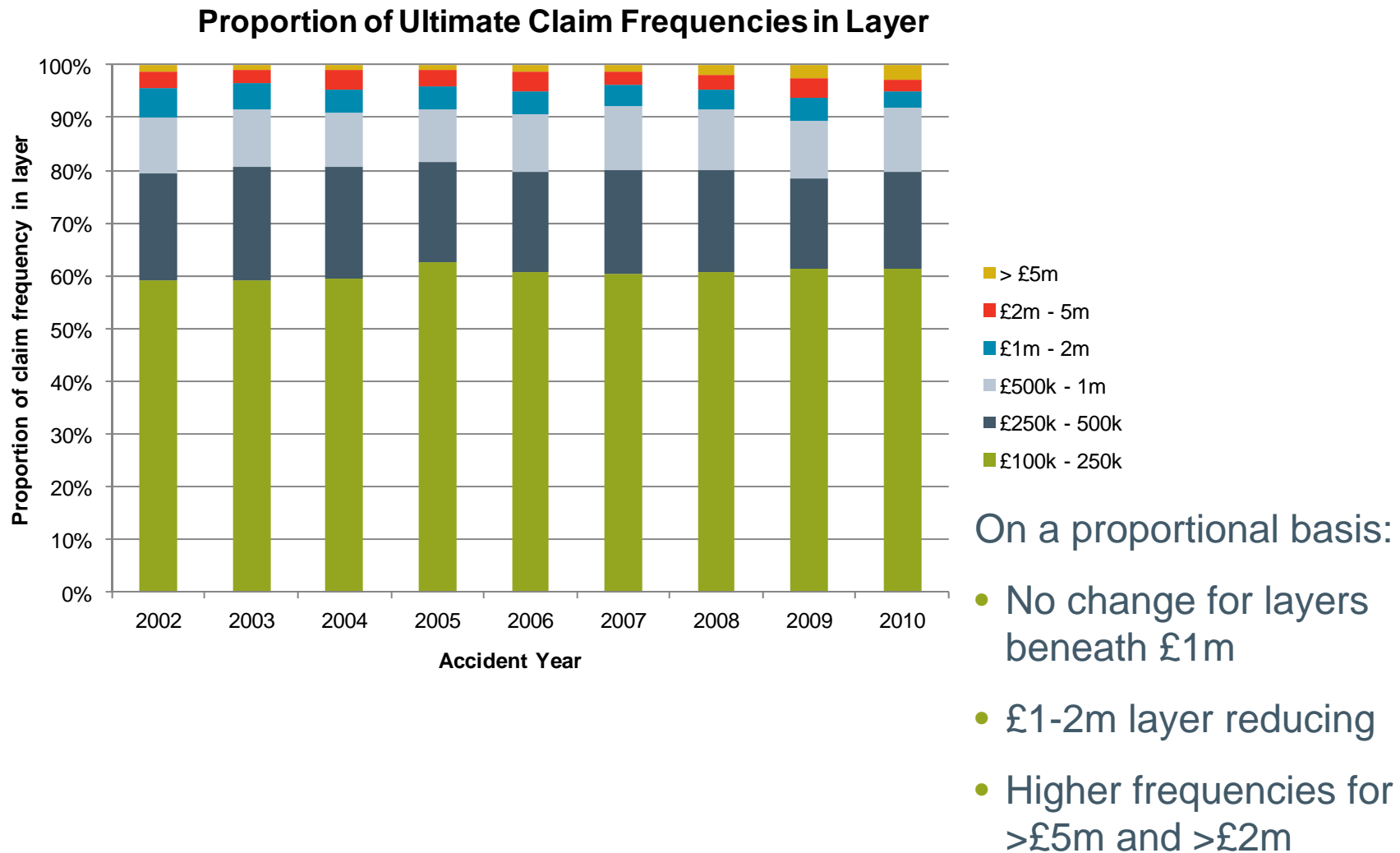
Projected Ultimate Claims

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%	49%	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%	39%	20%	8%	5%	2.9%

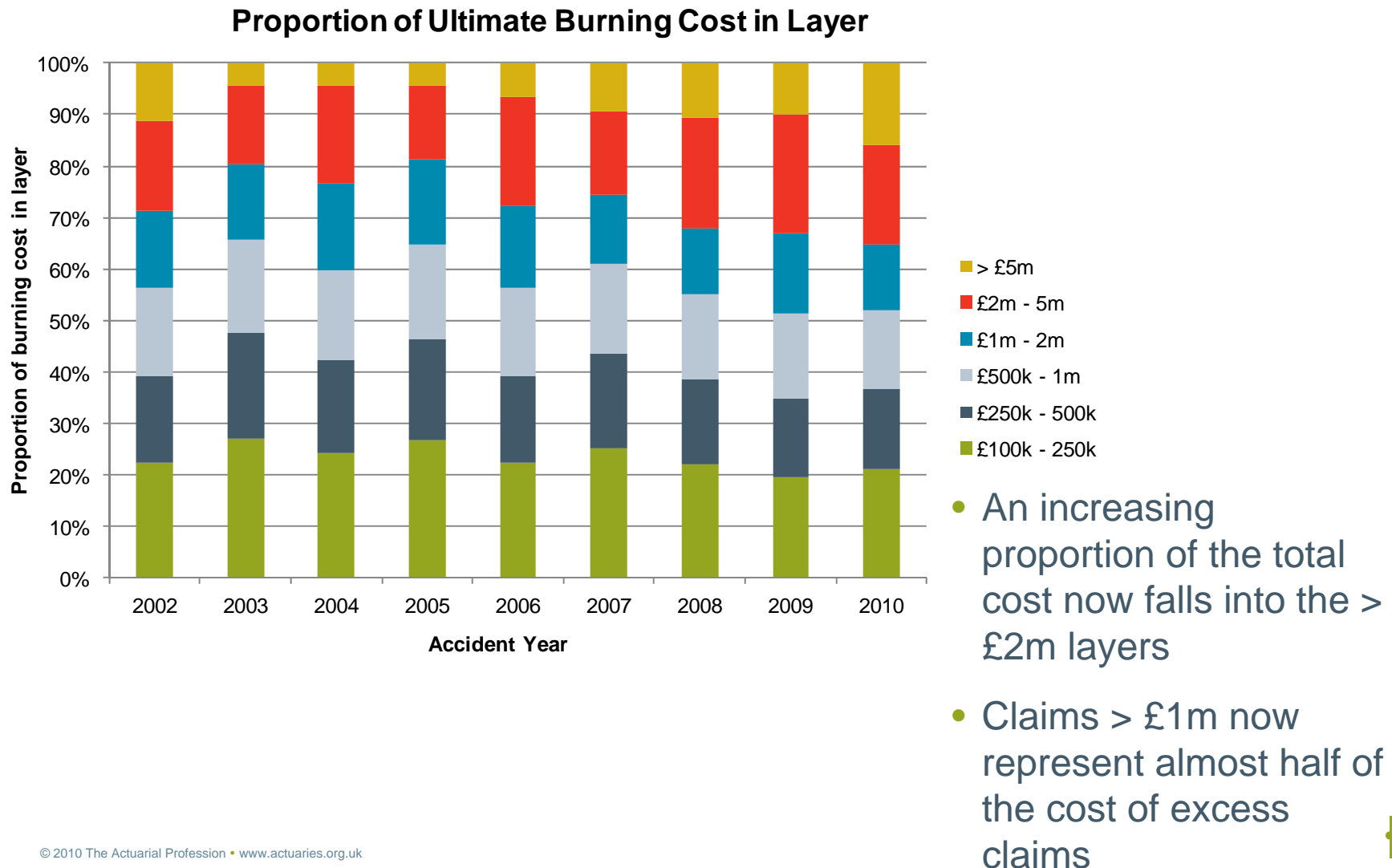
Excess of Capped TPI Analysis

Projected Ultimate Claims



Excess of Capped TPI Analysis

Projected Ultimate Claims



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

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%							

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%							

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%
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

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	Development Year (Figures in £000s)							
	1	2	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%							

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.

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	-

- 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

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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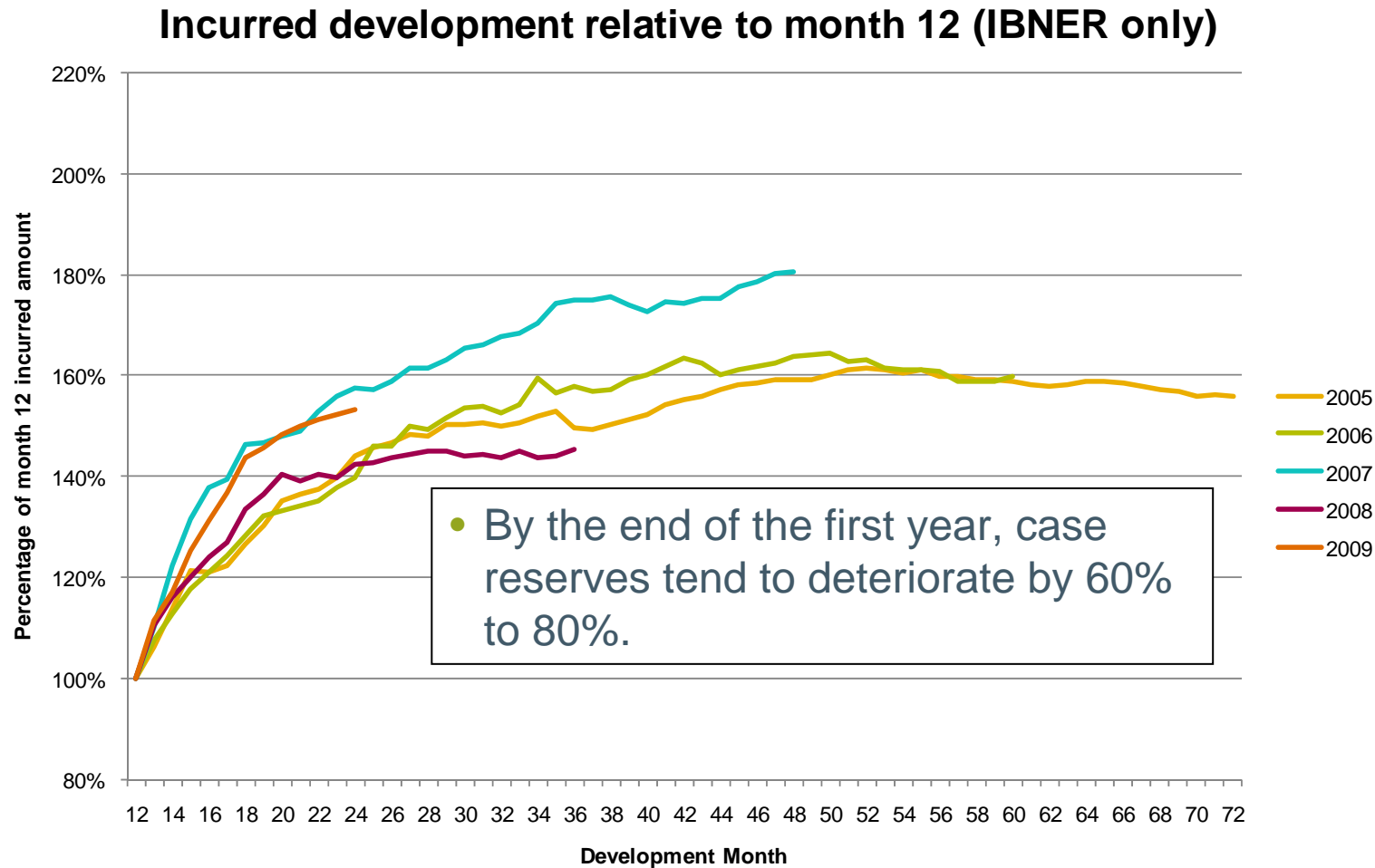
Excess of Capped TPI Analysis

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.

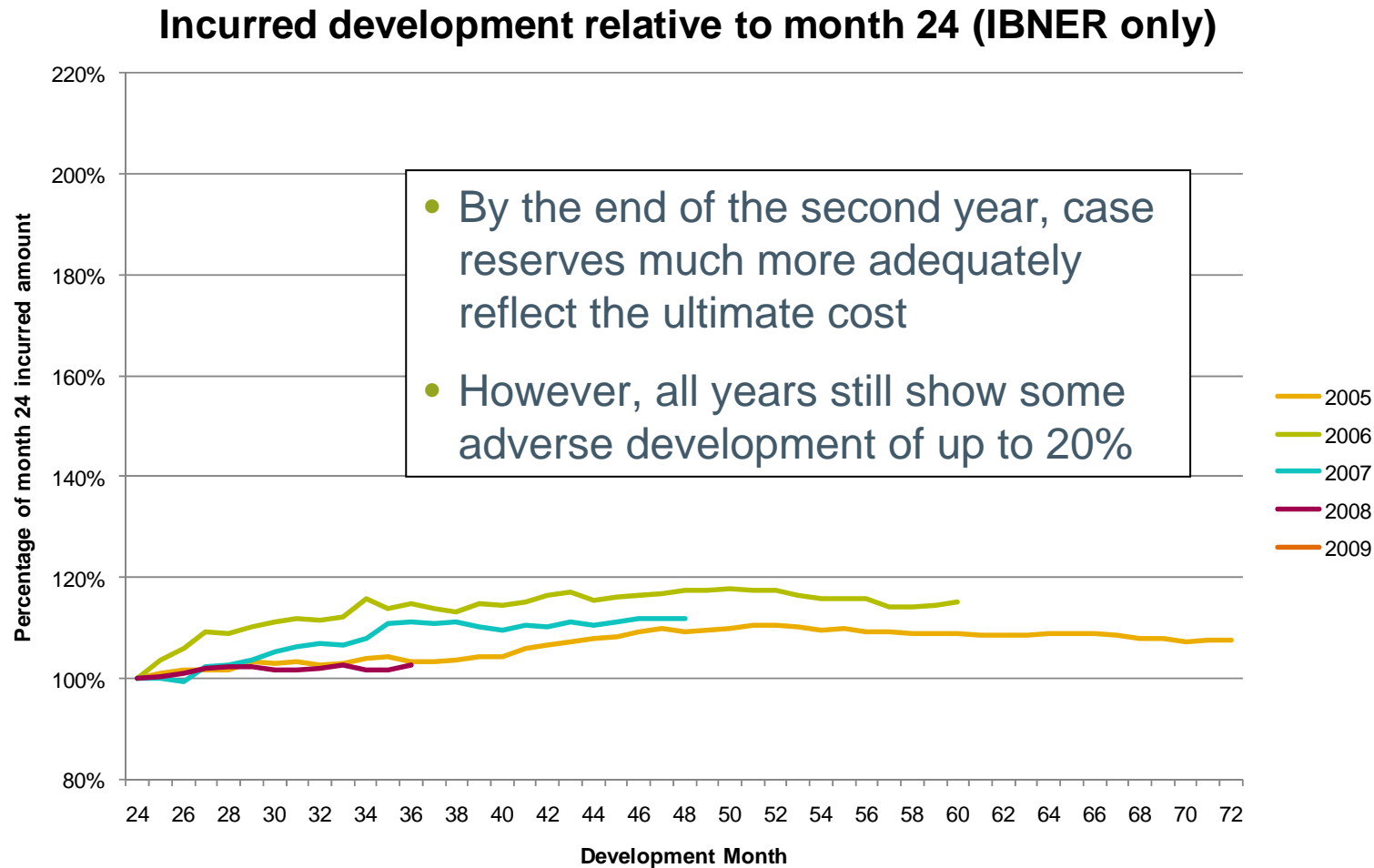
Excess of Capped TPI Analysis

Adequacy of Case Estimates



Excess of Capped TPI Analysis

Adequacy of Case Estimates



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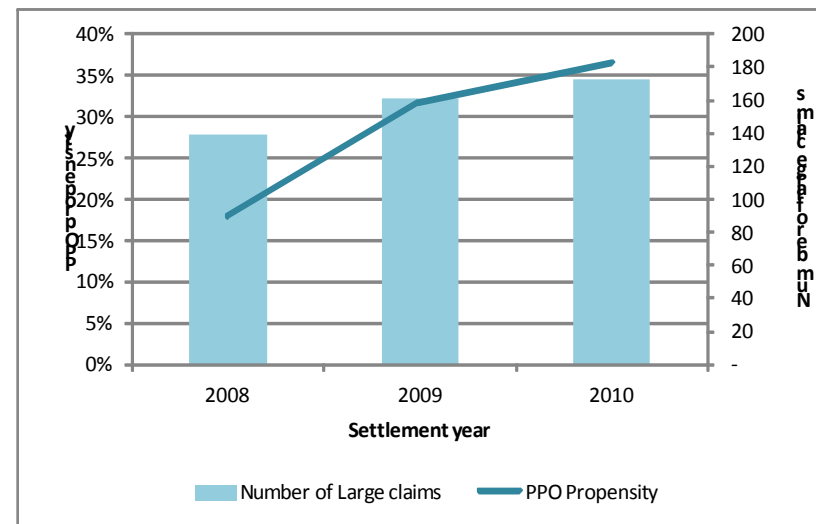
Collaboration with the PPO Working Party

Estimating the 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 for AYs 2010 and prior:
2 to 4 times* the current settled number

**based on a number of 'heroic' assumptions - see presentation by David Brown and Sarah MacDonnell at the 2011 Reserving Seminar*

The claims environment continues to evolve

- **Changes in claims handling** approaches for dealing with Portal claims
- **Claims Management** firms shifting focus to PPI?
- **OFT's** investigation into **credit hire** and **repair networks** as part of its motor insurance enquiry
- Launch of Alternative Business Structures (**ABS**)
- Legal Aid, Sentencing and Punishment of Offenders Bill (**LASPO**) (implementation April 2013)
 - **Ban on referral fees**
 - **Recoverability of success fees** and **ATE premiums** to be removed
 - **Reductions** in lawyers **fixed fees**?
 - ...but will **ABSs** be used to circumnavigate the **referral fee ban**?
- **Increase the upper threshold** for the Portal to **£25,000** (April 2013) and roll out the Portal to EL and PL claims (not before April 2013)

Valentine's Day summit with the Prime Minister



- Insurer commitment to pass on the savings to customers:
 - if RTA Portal fixed legal costs are reduced from current levels
 - arising from banning referral fees and the recoverability of success fees and the ATE premium from the defendant
- Joint commitment with government to reduce the cost of small personal injury claims through:
 - improving medical evidence – consideration of medical panels
 - removing small “nuisance claims” and introducing a minimum speed of impact for whiplash claims
- Joint commitment to investigate the use of telematics to reduce the risks to young drivers and to improve affordability.

Working Party activity in 2012

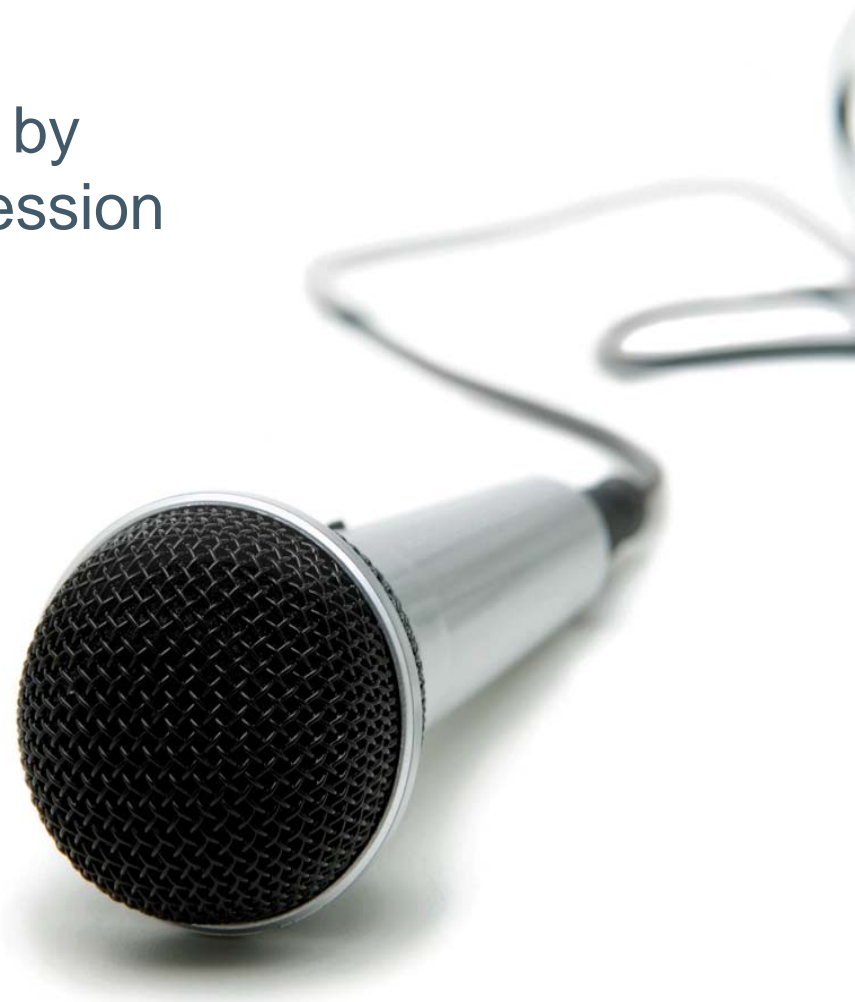
- Deeper dive on private car comprehensive business only
- Better understanding of the impact of the MOJ RTA Portal
- Geographical analysis at a more granular level than TV Region
- Repeat of large claims analysis and better integration with PPO Working Party
- More detailed analysis of smaller personal injury claims by layer
- Other analyses using publicly available data
- Workshops at the Pricing Seminar, the Reserving Seminar and GIRO
- Communications subgroup to continue
- New members welcome from companies which are willing to supply data!

Much insightful analysis will come from this
But many of the deeper insights will only come if companies can provide the data

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.



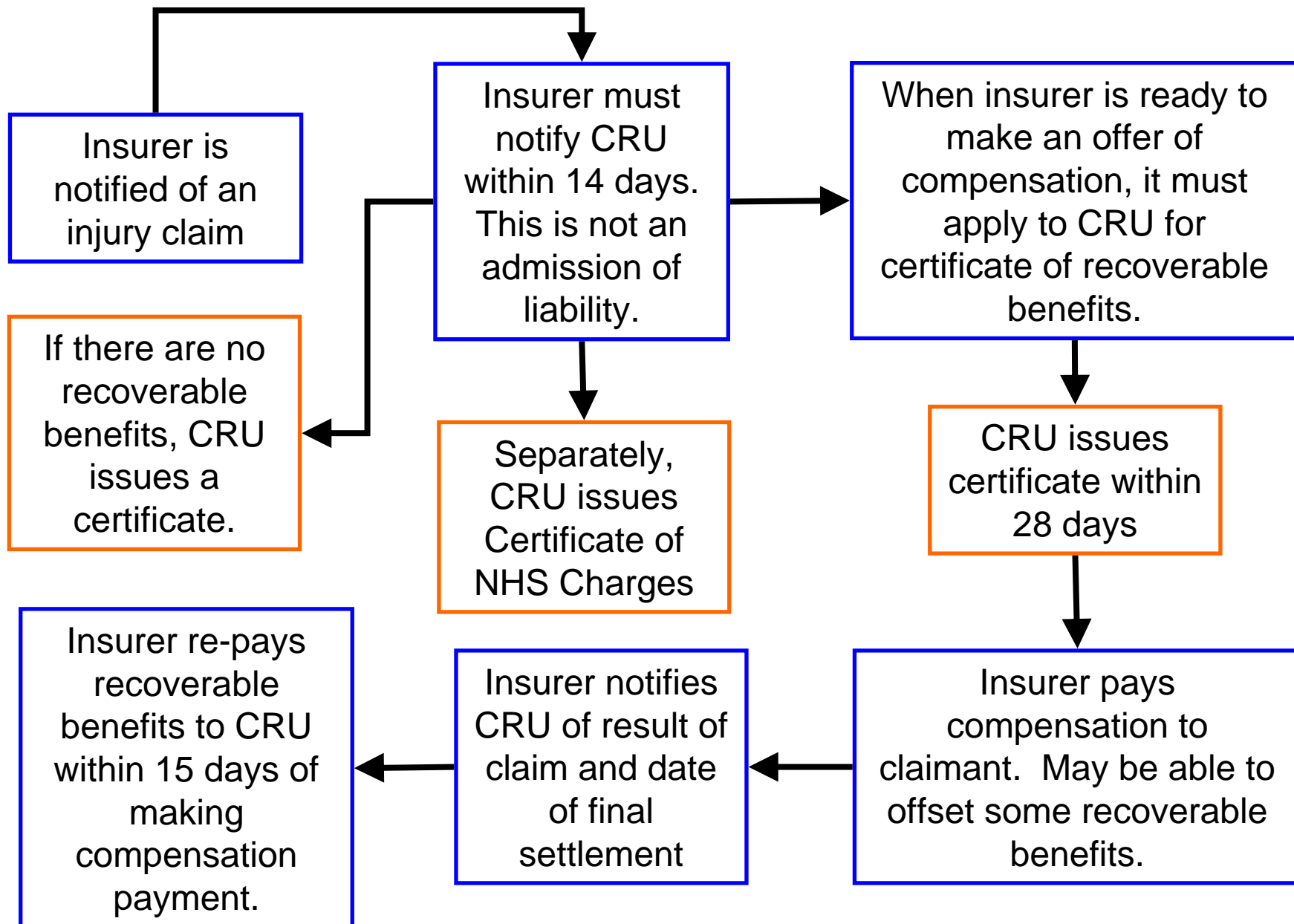
Appendix



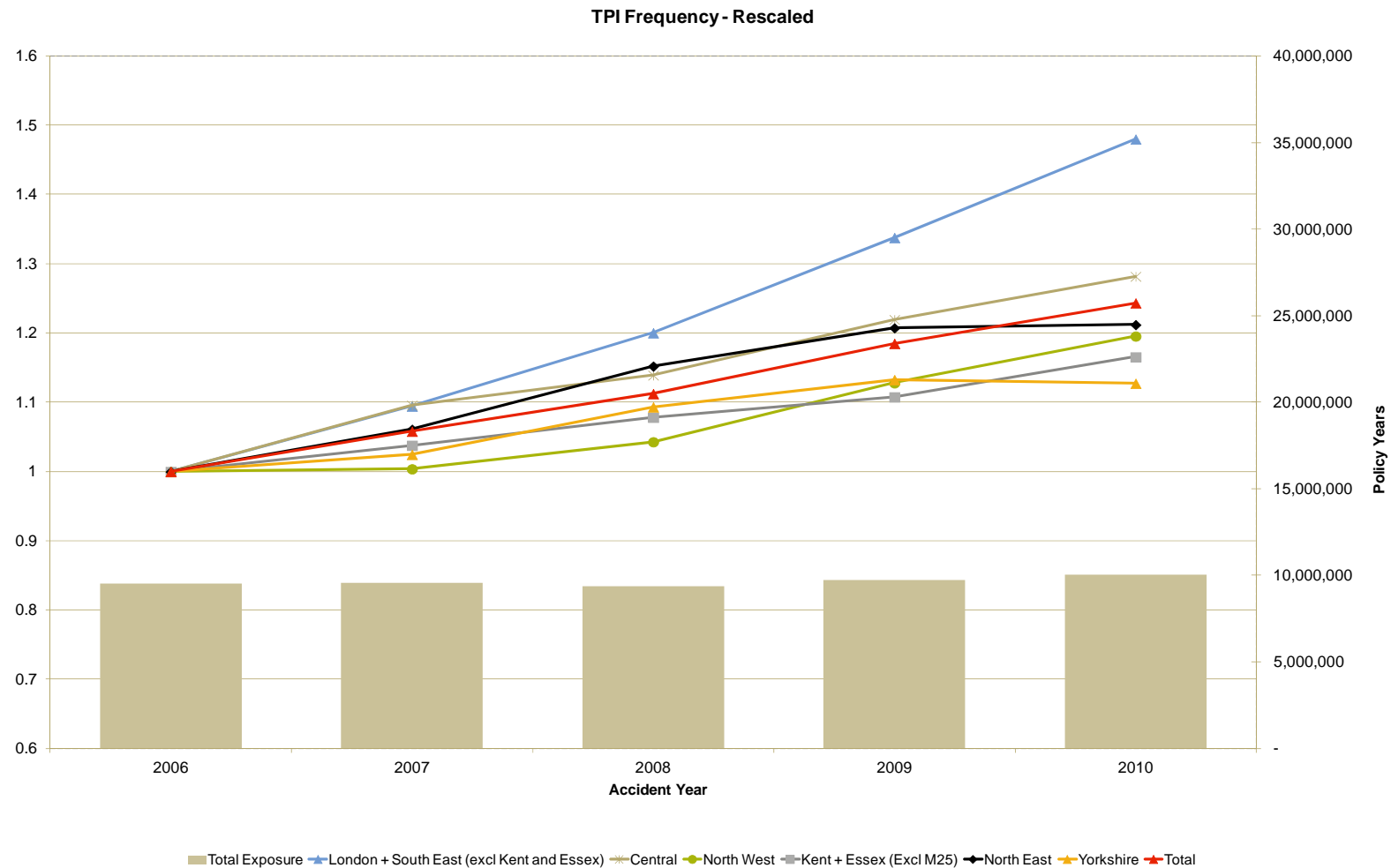
Data from the Compensation Recovery Unit

- 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.

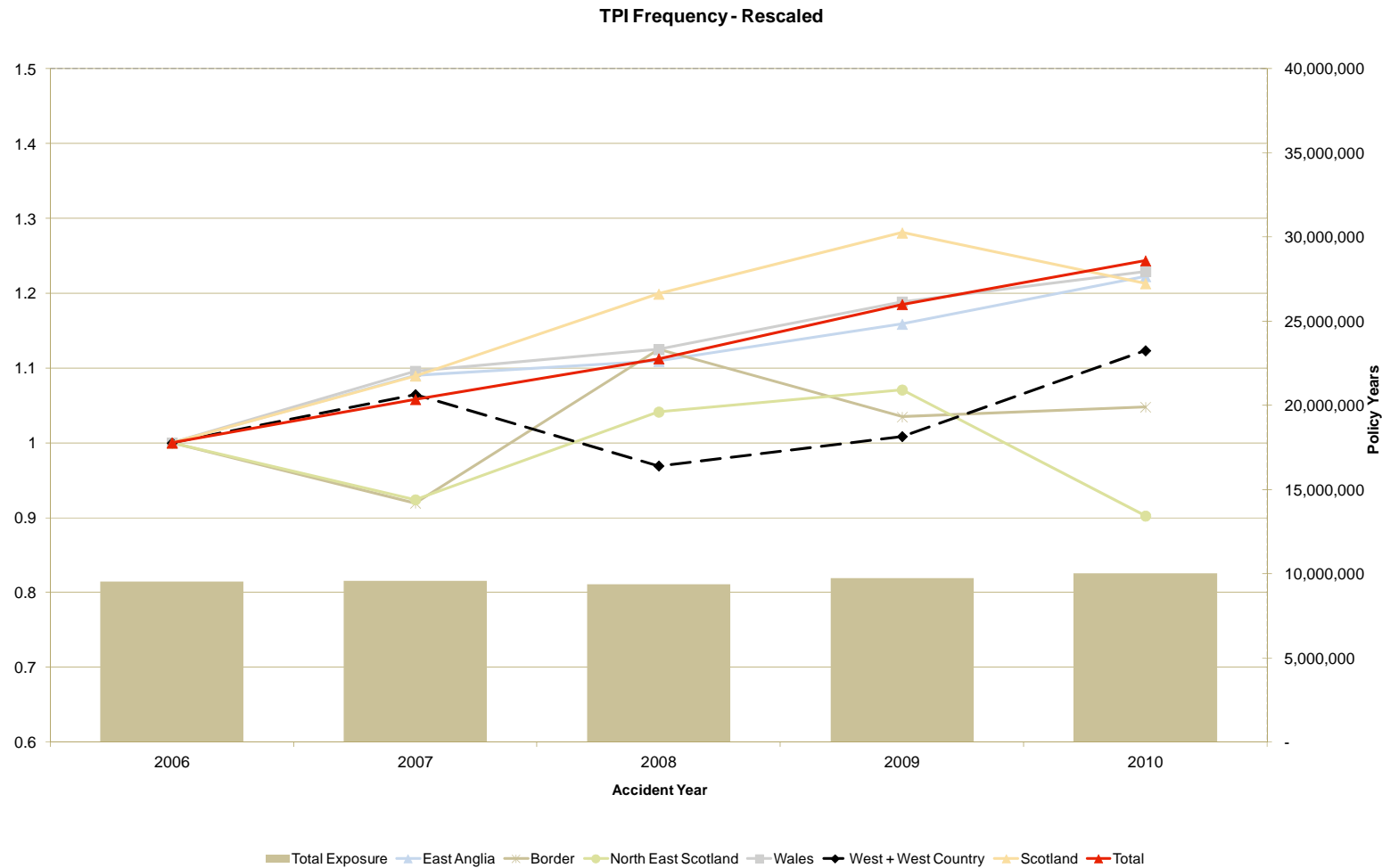
Compensation Recovery Unit



TPI Frequency by TV region (Private Car Comprehensive)



TPI Frequency by TV region (Private Car Comprehensive)



Civil Justice: Consultation, England & Wales

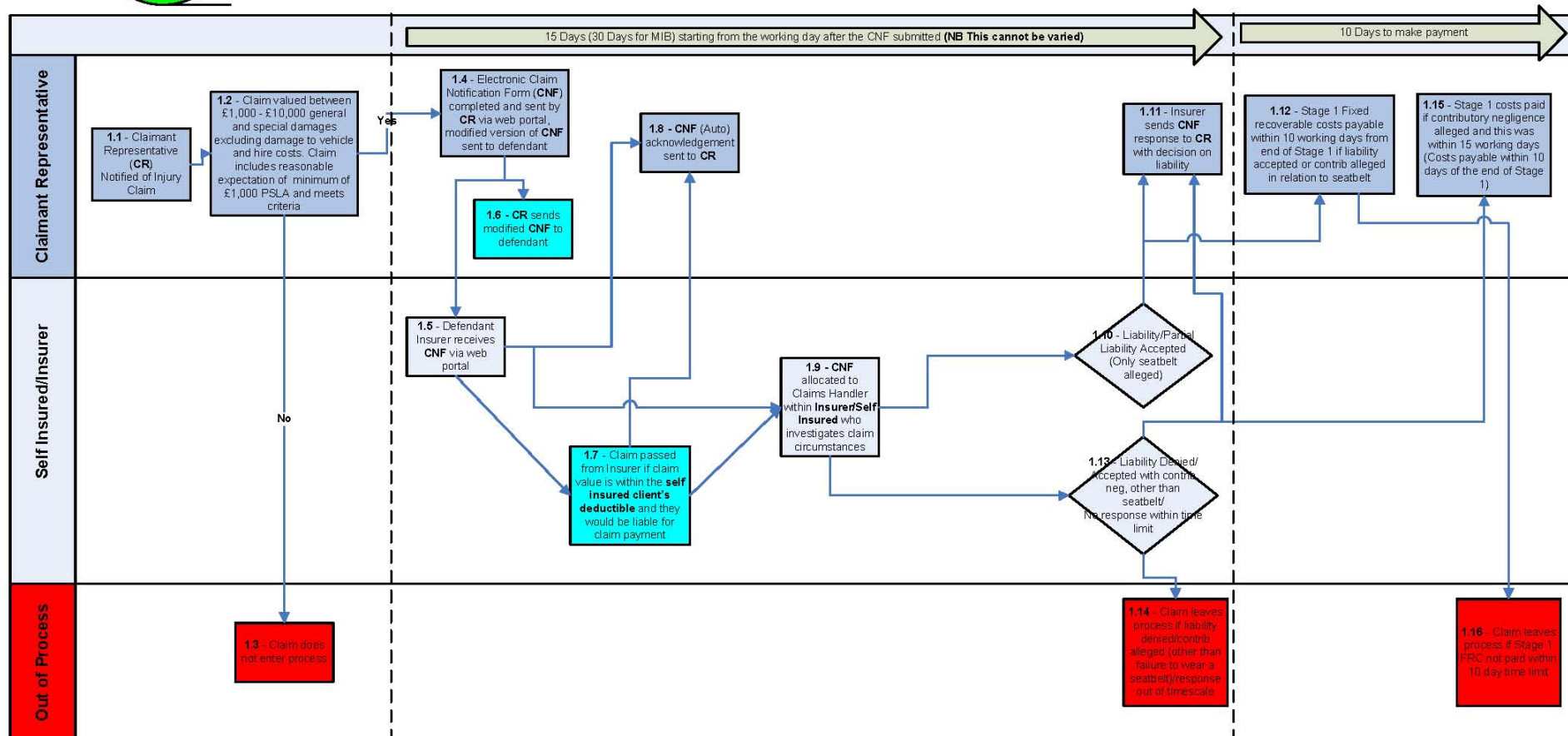
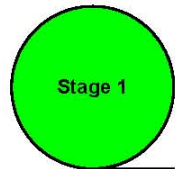
- First major overhaul of the civil justice system in 15 years and reform of 'no win no fee' deals
- To prevent expensive / unnecessary litigation
- Proposals to make the system simpler, quicker, cheaper and more effective **launched for consultation.**
- Include plans to improve how court judgments 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).

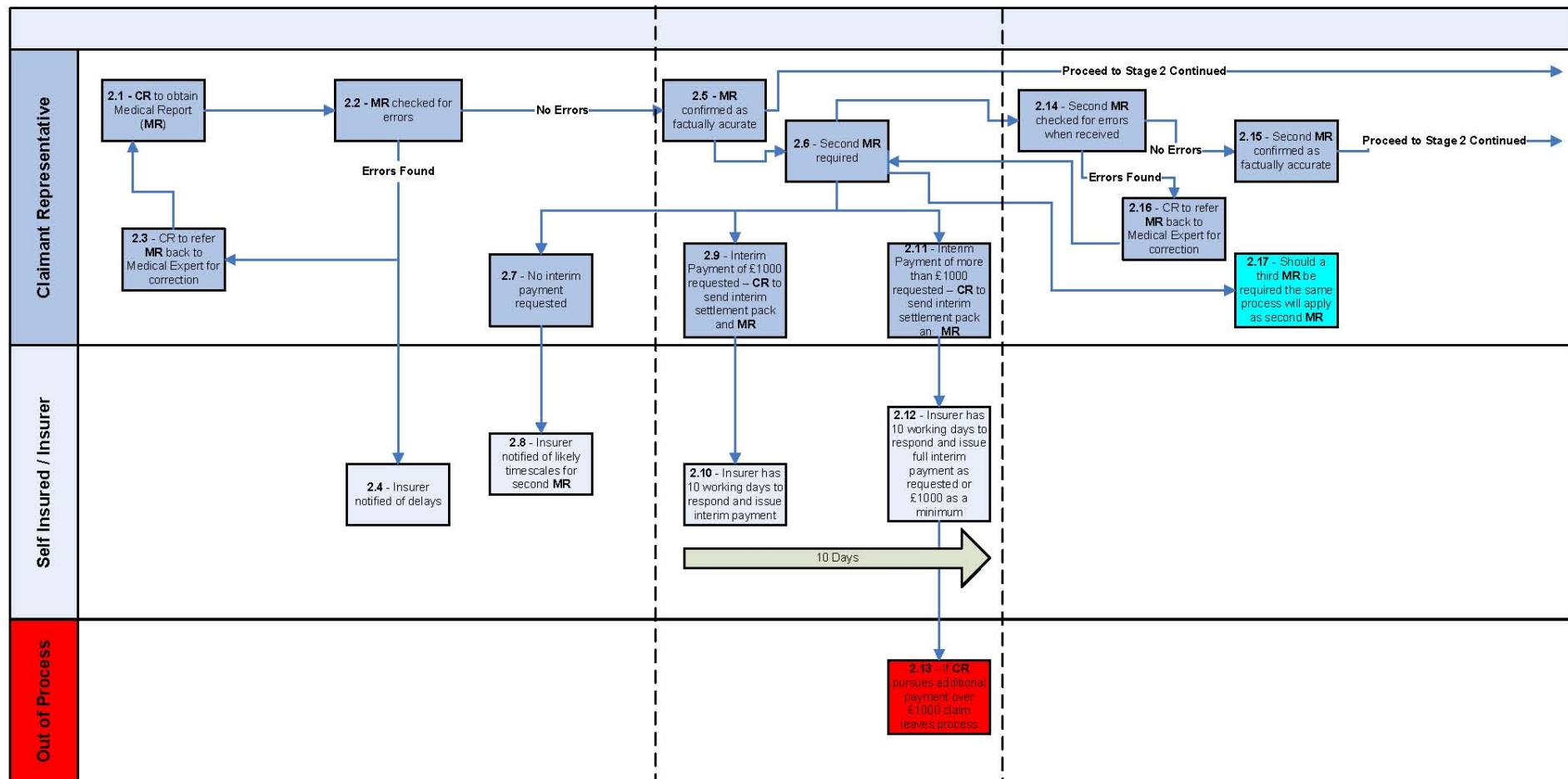
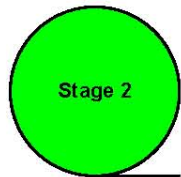
- encouraging parties to make and accept reasonable offers
- introducing a new test to ensure that overall costs are proportionate
- increasing the costs which can be recovered by people who win their cases without representation by lawyers

- 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.

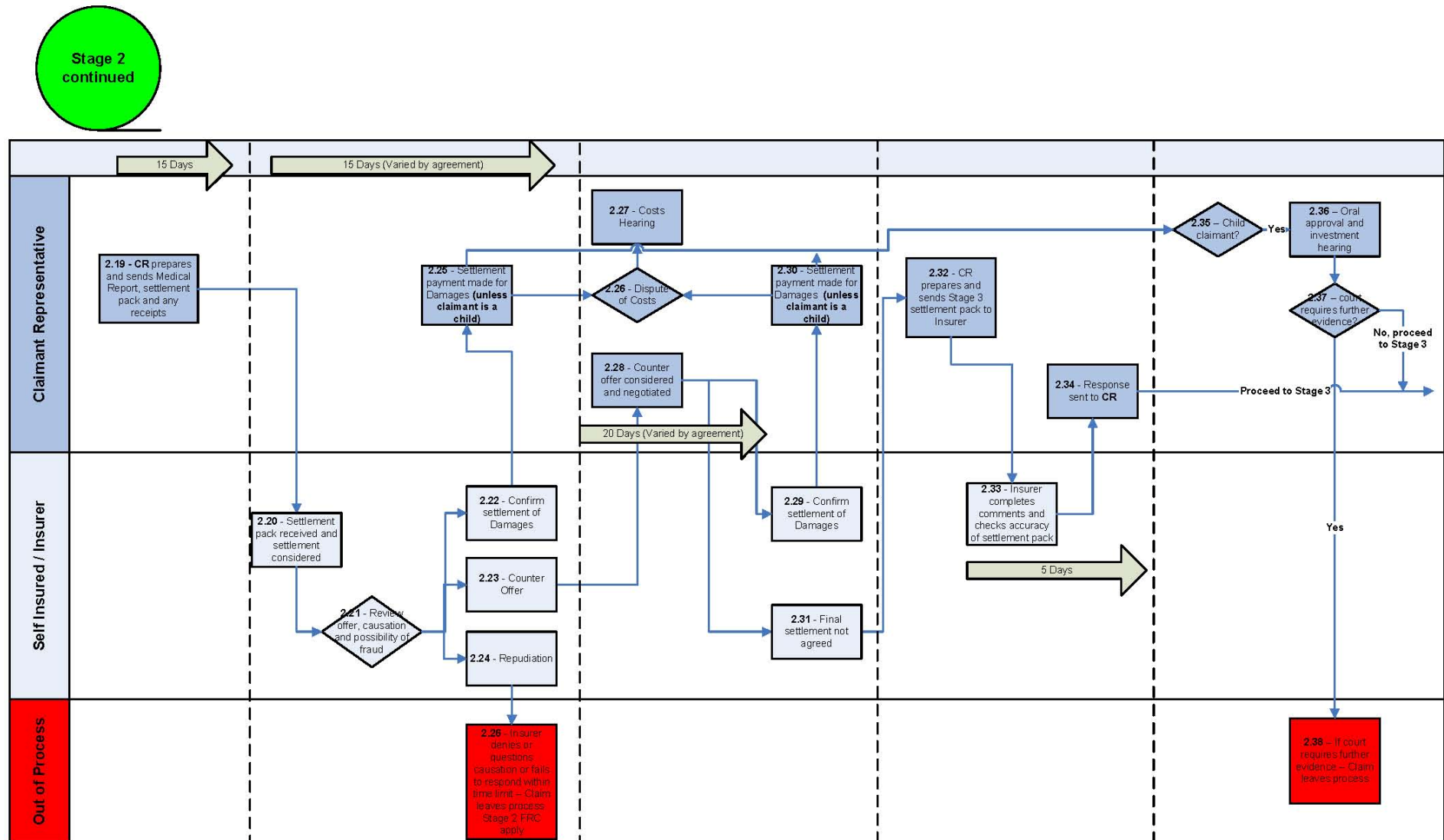
Detailed MOJ process 1/4



Detailed MOJ process 2/4



Detailed MOJ process 3/4



Detailed MOJ process 4/4

MOJ Process – Version 0.3 - 04/08/2009

