



This is a short version of the findings of the 2015 report on third party motor claims from the Institute and Faculty of Actuaries (IFoA), analysing 2014 data. This report concerns large bodily injury claims. An update to the interim report concerning small-valued bodily injury claims is available and should be read in conjunction with this report.

These are the results for the sixth annual report from the Institute and Faculty of Actuaries collating and analysing data for UK third party motor claims provided by 18 of the top 20 UK motor insurers in 2014 (01 January to 31 December 2014 unless otherwise stated). The study focussed on private car comprehensive (PCC) experience and is based on PCC earned premium of £7.8 billion for the 2014 accident year.

Third party motor insurance claims make up 70% of all motor insurance claims costs.

This document provides findings for media use to support issued media releases.

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Glossary

Burning cost: The average cost of insurance claims per vehicle. This is a combination of the frequency of a claim, and the average cost of a claim.

CMA: Competition and Markets Authority

CMC: Claims management companies. These businesses offer claim management services to assist individuals in making claims for items such as compensation. They will either provide their own solicitors or access to other third party solicitors to assist the individual in making a claim.

Claims farming: Claims management companies retrospectively filing claims on behalf of clients.

Claim severity: the average cost to insurers of a claim.

JSB: Judicial Studies Board, see Judicial College.

Judicial College: Formerly the Judicial Studies Board (JSB), is responsible for training judges in Crown, County and higher courts in England and Wales and tribunals judges in England and Wales, Scotland and Northern Ireland. It publishes the “Guidelines for the Assessment of General Damages in Personal Injury Cases” which are designed to provide a clear and logical framework for the assessment of damages in personal injury cases.

Large claims: the subject of this report, these are the most serious TPI claims with estimated costs above £131,000 for accidents in 2014 (corresponding to £100,000 in 2010, inflated at 7%).



LASPO: Legal Aid, Sentencing and Punishment of Offenders Act (in force since 1 April 2013). LASPO introduced a number of measures that impacted TPI claims, including the banning of referral fees that were formally used to encourage claim filing and reductions to the third party legal costs which can be recovered as part of the TPI claim.

MedCo: Since 6 April 2015 all soft tissue injury claims caused by a road traffic accident are subject to diagnosis by contractors of a new company, MedCo. It is a system to facilitate the sourcing of medical reports in soft tissue injury claims brought under the MoJ's new Pre-Action Protocol for Low Value Personal Injury Claims in Road Traffic Accidents.

MoJ Portal: the Ministry of Justice claims portal is a stakeholder-led secure electronic communication tool for processing low value personal injury claims.

Nil claims: Claims which are notified but ultimately settle for no payment to the claimant.

TPI: third party injury – claims arising when a driver causes personal injury to other persons for which he/she is liable. In the analysis TPI claims have been “capped” at £100,000 (for accidents in 2010, indexed at 7% per annum for other accident years) to remove the distorting effect of very large claims.

TPPD: third party property damage – claims arising when a driver causes damage to the property of other persons for which he/she is liable.

TPI/TPPD ratio: the ratio of TPI/TPPD represents the proportion of (third party) insured accidents involving (third party) injury. So a 50% figure would mean that 1 out of every 2 TPPD claims have an associated TPI claim.

TPWP: Third Party Working Party- Working party that is part of the Institute and Faculty of Actuaries (IFoA).



This report concerns the most severe insurance claims for injuries arising from road traffic accidents. These claims often include recompense for specific injuries, general pain and suffering, as well as a wide range of other costs such as medical care and loss of earnings. This makes the estimation of the final cost of these claims particularly uncertain and the information presented below should be considered in this light.

Key findings

1. **Since 2010, the average cost per policy of the most severe claims has increased on average by 11% per annum. This is almost entirely due to an increase in the average cost of these claims, rather than any change in the frequency of large claims.**
2. **The average cost has not increased uniformly over this period.** It is not unusual for average cost inflation to be volatile, especially for large claims. In 2014 there was an increase of 20%.
3. **Generally, the frequency of large claims has been stable since 2010**, with about 70 claims each year for every million vehicles insured. In 2014, this increased to 73. This is broadly consistent with an increase in the frequency of people seriously injured on the UK's roads during 2014. This is detailed in the Stats 19 data in Appendix 1.
4. **The average cost per policy of claims in excess of £5m increased by more than 50% in 2014 (from £9 per policy to £13 per policy) and this was a key driver of the inflation seen.** However this is an area of very significant uncertainty.

The table below details the change in the cost per policy of large claims from 2013 to 2014. Claims are banded by their estimated final cost.

Accident Year	£100k – 250k	£250k – 500k	£500k – 2m	£2m – 5m	>£5m	Total
2013, £	7.60	6.20	9.70	9.00	9.20	41.70
2014, £	8.50	7.40	12.10	11.70	13.10	52.80
Change, £	0.90	1.20	2.40	2.70	3.90	11.10
Relative contribution	8%	11%	22%	24%	35%	

This indicates that £11 has been added to the average cost of claims per policy since 2013 for large claims. Of this increase, 60% or £6.60 is due to claims costing over £2m.



Appendix 1: supporting data

Stats 19 data

The Stats 19 report looks at the number of personal-injury road traffic accidents in Great Britain that were reported to the police in 2014. It analyses the number of people killed or injured in these accidents and which road user group they were in.

		Percentage change from:		
		Last year	Five years ago	2005-2009 average
	2014	2013	2009	
Killed	1,775	⬇ 4%	⬆ 20%	⬆ 37%
Seriously injured	22,807	⬇ 5%	⬆ 8%	⬆ 16%
KSI ¹	24,582	⬇ 5%	⬆ 9%	⬆ 18%
Slightly injured	169,895	⬇ 6%	⬆ 13%	⬆ 21%
All casualties	194,477	⬇ 6%	⬆ 12%	⬆ 21%

1 Killed or seriously injured.

Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/438040/reported-road-casualties-in-great-britain-main-results-2014-release.pdf

Stats 19 has historically shown a consistent fall in the number of casualties, directionally consistent with the reduction in TPPD frequency.

However, in the 12 months to the end of 2014 there has been a 4% increase in the number of casualties over and above the 2% increase that might have been expected due to increased traffic volumes. The vulnerable user groups (pedestrians, pedal cyclists and motorcyclists) all account for disproportionately more casualties than would be expected given the distance travelled.

This may be related to reported increases in cycling – e.g. a 12% increase in Cycle to Work scheme in 2014 (c.f. 16% in 2013 and 8% in 2012, source: Cycle To Work Alliance), although in London deaths and serious injuries to cyclists are down despite a 60% increase post 2008 (Source: London Mayor's Office/ TFL (June 2015), <http://www.london.gov.uk/media/mayor-press-releases/2015/06/london-cycling-now-the-highest-on-record-as-rate-of-deaths-and>)



Appendix 2: supporting background information

Background to the motor insurance industry

Motor insurance offers cover to both personal and commercial customers in the UK and is compulsory in respect of third party property damage and third party bodily injury. For personal lines, this paper focuses on comprehensive cover rather than non-comprehensive cover due to its far larger size.

The motor insurance industry lost money in each of the past four years (as per the FSA/PRA returns based on combined operating ratios). In 2014 there was a loss of 14p for every £1 of premium sold when comparing claims and expenses against premium income, excluding reserve releases (Deloitte Analysis of AM Best data).

Motor premiums rose significantly during 2010 as a consequence of increasing claims costs. However, premiums began to fall from the end of 2011 and continued to decrease sharply until the second half of 2014 when they started to increase again slightly.

There have been many regulatory changes aimed at helping policyholders that have impacted the motor insurance industry in recent years, such as the introduction of the MoJ portal in 2010, the introduction of LASPO in 2013 and most recently the MedCo Portal becoming operational in April 2015. These changes have also helped lead to some of the results discussed in this research. Reforms will continue to be implemented throughout 2015/16. A consultation regarding MedCo is currently being evaluated to assess its initial effectiveness.

Background to the Working Party

The Institute and Faculty of Actuaries commissioned a working party to investigate third party motor insurance based on some worrying inflationary trends being reported by individual insurers.

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