Third Party Working Party
GIRO Workshop A1 – David Brown, John Berry & Neil Wilson
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The materials contained in this presentation pack and any oral representation of it by the working party are explicitly outside the scope of the TAS.
Acknowledgements

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Aviva: Philip Paston,
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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
1. What has changed environmentally since the 2010 TPWP exercise
2. Summary of results for Private Car as presented to 2011 Pricing Seminar
3. Additional statistics for Private Car Comprehensive Capped TPI
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4. Geographical analysis
5. Motorcycle, CV Non-Fleet and Fleet
6. Excess of Capped TPI results
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   • Adequacy of Case Estimates

Appendices
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.
Road Usage Data

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

- Road usage has been dropping since 2007.
- With a more pronounced drop in 2010 of 2.4%.
The New MOJ Process (Claims after 30/04/2010)

**Stage 1**
- Claim notified
- Claim £1K - £10k
- Electronic notification
- Full/partial payment
- 10 days

**Stage 2**
- Medical report
- 15 days
- Insurer receives / considers MR
- 15 Days
- 20 days +

**Stage 3**
- Claimant rep issues proceeding for quantum hearing
- Insurer checks / responds to settlement pack
- CR receives settlement pack
- Court hearing to determine damages
- Judgement received
- Insurer pays

Insurer – accept / reject liability

If CR not done so insurer can issue for quantum hearing

Not later than 15 days after the end of stage 2

Prepare settlement pack

Hearing costs / dispute of costs / counter offer

15 Days
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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

2010 road usage down and 6% fewer accidents
But high average cost inflation continues at 7%
Insurers are settling more quickly

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
- 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 on uncertainty on 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 claims and doubt as to the costs of the MOJ process over its full life cycle → risk of underpricing
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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Private Car Comprehensive
Reported claimants per claim

- Persistent year-on-year increases of the order of 5% pa
- But a drop in 2010
- Final quarter of 2010 anomalous due to weather event?

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Persistent increases in CRU claimants

- 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.
- Whereas the insurer claimant per claim data in 2010 data drops. We note this puzzling difference but note:
  - 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.

![Number of motor cases registered to the CRU](image-url)
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Private Car Comprehensive Experience by TV Region

- Latest reported claim numbers and incurred claim amounts were provided split by geographic region.
- These data were aggregated and a set of industry statistics produced that shows how key statistics vary by location in the UK.
- These statistics are based on latest positions (i.e., on claim information excluding any estimate for IBNR or IBNER claims or amounts) which should be considered when interpreting any results.
- The analysis was restricted to Private Car Comprehensive due to insufficient quantities of data in other lines of business.
- Some differences in absolute level of KPIs compared with last year’s analyses are present.
- These differences are caused by there being a different basket of contributing companies this year.
- Relative trends generally reinforce the trends identified last year.
TPI / TPD numbers by TV region (Private Car Comprehensive) - NW higher than worst in US

- Continued strong increases in London + SE and Kent + Essex
- Increase in London + SE since 2006 is twice the average
- Levelling off in NW, NE and Yorks. Linked to CMC saturation?

*US data from ISS's Private Passenger Fast Track Data reports

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

- Scottish differential increased in 2010. Different legal environment & possible weather impact?
- Increases in rural regions generally less than average
- Scotland 2010 impacted by Dec weather?

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

- London severity in line with average, NW and Central only slightly below.
- Rural areas display higher severities, perhaps owing to a higher proportion of large claims.
- Scotland (excl NE Scotland and Border) and North East 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
• Last year’s Working Party showed a correlation between high TPI frequency and CMC activity
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Notes to Accident Year Triangles

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

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)

- Frequency generally down year-on-year
- Overall, market has seen a shift in mix towards more powerful bikes since 2000
- Poorer risks priced out by recent rate increases
- Lower numbers of cars on the road could be starting to have an effect
- Little cost inflation on incurreds, settleds even show deflation in 2010, although this is consistent with slowing settlement rates

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 - TPI Capped

- Settlement rate slowing (c.f. speeding up for private car)

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

- Overall pattern similar to private car trends, albeit at a lower absolute level

Inflation Rates
09-10: 8.7%  08-09: 2.8%  07-08: 7.4%  06-07: 0.9%  05-06: 14.1%
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.
• Following reductions in claim frequencies from 2007 to 2009, 2010 shows a significant increase

• Increase in frequency has been met with a slowdown in payments, potentially arising from a slowdown in operations
CV - All Distribution Channels
 Ratio of TPI to TPD Reported Claim Numbers (inc nils)

- TPD and TPI have equally high increases in frequency in 2010
- Stability of the TPI to TPD ratio in 09/10 may be due to timing issues with proportionately more CV accidents happening later in the year

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

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

- Lower inflation in ratio year-on-year as well as absolute levels compared to Private Car Comp
- Also different trends to CV

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

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

- Inflation on an incurred basis continues to be low, unlike Private Car Comp

Inflation Rates
09-10: 1.7%  08-09: -5.4%  07-08: 6.2%  06-07: 1.2%  05-06: 12.9%
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Excess of Capped TPI Analysis
Introduction

• Data formats and analysis identical to IUA Bodily Injury Studies
• Anonymised data was provided for individual TPI claims relating to accident years 2000 through to 2010 (inclusive)
• Data was provided “as at” 31 December 2010
• The analysis investigated the cost of claims in excess of a threshold of £100,000 in 2010 money, indexed at 7% per annum
• The analysis was restricted to Private Car Comprehensive due to insufficient quantities of data in other lines of business
• Results are generally shown for accident years 2002 through to 2010, owing to reduced exposure for the 2000 and 2001 accident years.
Excess of Capped TPI Analysis

Introduction

- The threshold for the relevant accident years are based on £100k in 2010 money indexed at 7%
- The thresholds are slightly lower than those used in the capped claims analysis shown in the Capped Bodily Injury results (thresholds were equal to £50k in 1999 money indexed at 7% per annum, c.f. £47.5k in 1999 money)
- This was done to maximise consistency with the IUA Bodily Injury Studies

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>Threshold</th>
</tr>
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<tbody>
<tr>
<td>2000</td>
<td>50,835</td>
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<tr>
<td>2001</td>
<td>54,393</td>
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<tr>
<td>2002</td>
<td>58,201</td>
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<tr>
<td>2003</td>
<td>62,275</td>
</tr>
<tr>
<td>2004</td>
<td>66,634</td>
</tr>
<tr>
<td>2005</td>
<td>71,299</td>
</tr>
<tr>
<td>2006</td>
<td>76,290</td>
</tr>
<tr>
<td>2007</td>
<td>81,630</td>
</tr>
<tr>
<td>2008</td>
<td>87,344</td>
</tr>
<tr>
<td>2009</td>
<td>93,458</td>
</tr>
<tr>
<td>2010</td>
<td>100,000</td>
</tr>
</tbody>
</table>

- 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.
Excess of Capped TPI Analysis
Data Trends

Excess of Capped Claim Frequency

Drop in frequency since 2007; 2010 is down significantly

Inflation Rates
09-10: -21.6%  08-09: -0.3%  07-08: -7.3%  06-07: 6%  05-06: -1%
With the exception of 2010, the ratios have been steady over time; drop in 2010 could be due to:

- Late reporting of large claims
- Lower levels of serious TPI due to low driving speeds in winter weather
- Fewer young drivers due to increased cost of motoring

Inflation Rates

09-10: -16.1%  08-09: 0.7%  07-08: -2.6%  06-07: 1%  05-06: -5.1%
Large claims frequency vs. petrol prices

Ultimate Excess of Capped (£100k indexed) Claim Frequency and petrol price per litre

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 Settled Average Cost

- Very few settlements in most recent years make it hard to establish a clear pattern other than a general inflationary trend

Inflation Rates

- 07-08: 19.6%
- 06-07: -10.8%
- 05-06: 7.6%
- 04-05: -4.5%
- 03-04: 10%
Excess of Capped TPI Analysis
Data Trends

Excess of Capped Incurred Average Cost

- Clear inflationary trend which is arguably twice as strong as that seen for settled average costs

- Whilst this may reflect genuine inflation, it is possible that case estimate strength has increased at least in part due to some insurers strengthening for PPOs (see slide 40)

Inflation Rates

09-10: 1.7% 08-09: 17.5% 07-08: 11.9% 06-07: 1.1% 05-06: 18.1% 04-05: -10% 03-04: 18.2%
As would be expected, inflation on the open claims is the strongest of all measures (roughly three times the rate of settled inflation).

This is consistent with the increased settlement rate for the oldest years, and means that there are cohorts dominated by the most severe claims.

The earlier point on PPOs will also apply.
Excess of Capped TPI Analysis
Projected Ultimate Claims – Uncertainty

- Rigorously straightforward mechanistic projection methodology
- No tail beyond 11 years as no data
- An x% tail factor would increase ultimates for all accident years by x% but with the same trend across years.
- The Ogden consultation and version 7 of the Ogden tables are most likely not reflected in insurers’ data:
  - Any increase in longevity assumptions or drop in the discount rate would lead to additional inflation
  - Such increases may however be mitigated at least partially by PPOs being less attractive to insurers.
- The PPO Working Party has found range of approaches to PPO case reserves. Quoted inflation rates may be overstated excluding PPOs but understated including PPOs
- 2010 Q4 had poor weather in December, bringing potential reporting delays & lower impact speeds and less TPI (see Appendix 1 Slide 128)
- The most recent accident years are immature in their development and as such are subject to material uncertainty
- Due to lack of development data, Paid triangles were not used. As such projections are subject to uncertainty caused by changes in case reserve strength over time
### Excess of Capped TPI Analysis

Projected Ultimate Claims

<table>
<thead>
<tr>
<th>Accident Period</th>
<th>Earned Exposure (millions of vehicle years)</th>
<th>Ultimate Excess of Capped Claim Frequency (claims per million vehicle years)</th>
<th>Ultimate Excess of Capped Claim Severity (£)</th>
<th>Ultimate Excess of Capped Burning Cost (£)</th>
<th>Year-on-Year Change in Frequency (% pa)</th>
<th>Year-on-Year Change in Severity (% pa)</th>
<th>Year-on-Year Change in Burning Cost (% pa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>10.73</td>
<td>121</td>
<td>264,174</td>
<td>31.9</td>
<td>-9.3%</td>
<td>-9.3%</td>
<td>-17.7%</td>
</tr>
<tr>
<td>2003</td>
<td>12.23</td>
<td>110</td>
<td>239,715</td>
<td>26.3</td>
<td>-10.5%</td>
<td>17.2%</td>
<td>4.8%</td>
</tr>
<tr>
<td>2004</td>
<td>12.68</td>
<td>98</td>
<td>280,907</td>
<td>27.5</td>
<td>3.5%</td>
<td>-9.3%</td>
<td>-6.1%</td>
</tr>
<tr>
<td>2005</td>
<td>13.13</td>
<td>101</td>
<td>254,733</td>
<td>25.8</td>
<td>-1.6%</td>
<td>20.0%</td>
<td>18.0%</td>
</tr>
<tr>
<td>2006</td>
<td>13.11</td>
<td>100</td>
<td>305,617</td>
<td>30.5</td>
<td>6.4%</td>
<td>-0.7%</td>
<td>5.6%</td>
</tr>
<tr>
<td>2007</td>
<td>12.48</td>
<td>106</td>
<td>303,334</td>
<td>32.2</td>
<td>-4.2%</td>
<td>13.1%</td>
<td>8.4%</td>
</tr>
<tr>
<td>2008</td>
<td>12.27</td>
<td>102</td>
<td>342,928</td>
<td>34.9</td>
<td>4.2%</td>
<td>15.2%</td>
<td>20.1%</td>
</tr>
<tr>
<td>2009</td>
<td>12.77</td>
<td>106</td>
<td>395,167</td>
<td>41.9</td>
<td>-6.6%</td>
<td>-4.1%</td>
<td>-10.5%</td>
</tr>
<tr>
<td>2010</td>
<td>12.96</td>
<td>99</td>
<td>378,975</td>
<td>37.5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- 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 TPI Claim Numbers - Percentage of Ultimate

- Development pattern consistent with the exception of 2010, which may have been distorted due to winter weather
- In later development there is redundancy as some claims are settled beneath the capping threshold
- Average development patterns for Excess TPI triangles are shown in Appendix 1, Slides 101-105
Excess of Capped TPI Analysis
Projected Ultimate Claims

- Claim numbers and claim amounts were projected in a series of (unindexed) layers:
  - A seventh layer between £100k unindexed and £100k indexed was used to calculate results in excess of £100k indexed. Results for this layer are not included in analysis of layers.
  - The definition of the layers is such that a claim of £1m contributes £150k to the lowest layer, £250k to next layer and £500k to the next layer.
  - This approach allowed the estimation of claim frequencies, average costs and burning costs within layers to be estimated for each accident year.
  - Note that although the nominal £100k-250k frequency is increasing, slide 34 shows that the frequency of claims in excess of the indexed threshold has been falling. The increase in frequency seen on an unindexed basis is due to underlying natural inflation.
Excess of Capped TPI Analysis
Projected Ultimate Claims

On a proportional basis:
- No change for layers beneath £1m
- £1-2m layer reducing
- Higher frequencies for >£5m and >£2m
Excess of Capped TPI Analysis
Projected Ultimate Claims

- An increasing proportion of the total cost now falls into the > £2m layers
- Claims > £1m now represent almost half of the cost of excess claims
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 200 claims per accident year)**

<table>
<thead>
<tr>
<th>Loss Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
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<tr>
<td>2003</td>
<td>663</td>
<td>860</td>
<td>891</td>
<td>1,067</td>
<td>1,117</td>
<td>1,111</td>
<td>1,154</td>
<td>1,195</td>
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<tr>
<td>2004</td>
<td>817</td>
<td>1,007</td>
<td>1,121</td>
<td>1,201</td>
<td>1,222</td>
<td>1,316</td>
<td>1,345</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>628</td>
<td>955</td>
<td>996</td>
<td>1,122</td>
<td>1,208</td>
<td>1,248</td>
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<td></td>
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<tr>
<td>2006</td>
<td>758</td>
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<td>1,399</td>
<td>1,538</td>
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<tr>
<td>2007</td>
<td>603</td>
<td>1,176</td>
<td>1,384</td>
<td>1,463</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>1,008</td>
<td>1,468</td>
<td>1,602</td>
<td></td>
<td></td>
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<tr>
<td>2009</td>
<td>1,190</td>
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<td>2010</td>
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**Annualised Escalation Rates**

<table>
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<th>3 Year Periods</th>
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<tr>
<td>2003 - 2006</td>
<td>5%</td>
<td>7%</td>
<td>13%</td>
<td>9%</td>
<td>11%</td>
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<tr>
<td>2004 - 2007</td>
<td>-10%</td>
<td>5%</td>
<td>7%</td>
<td>7%</td>
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<td></td>
<td></td>
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<tr>
<td>2005 - 2008</td>
<td>17%</td>
<td>15%</td>
<td>17%</td>
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<tr>
<td>2006 - 2009</td>
<td>16%</td>
<td>22%</td>
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<tr>
<td>2007 - 2010</td>
<td>21%</td>
<td></td>
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<td>9%</td>
<td>11%</td>
<td>12%</td>
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<tr>
<td>2004 - 2009</td>
<td>8%</td>
<td>14%</td>
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<tr>
<td>2005 - 2010</td>
<td>11%</td>
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- 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

- 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

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>£2m - £3m</th>
<th>£3m - £4m</th>
<th>£4m - £5m</th>
<th>£5m - £6m</th>
<th>£6m - £7m</th>
<th>£7m - £8m</th>
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<td>1</td>
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<td>2010</td>
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<td>5</td>
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<td>5</td>
<td>-</td>
<td>2</td>
<td>2</td>
<td>1</td>
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</table>

• 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
Adequacy of Case Estimates

• We extracted claims from the data which had been reported before the end of development year one, and tracked their further incurred development relative to the year one position.

• This removes the effect of IBNR claims, allowing the impact of IBNER to the deterioration of claims experience to be separately assessed.

• An element of IBNER may be the identification of additional claimants on claims already reported.

• The calculation is then repeated using development year two to obtain a view of incurred development relative to the year two position.

• We show here only development beyond year 2.
Excess of Capped TPI Analysis
Adequacy of Case Estimates

• By the end of the second year, case reserves much more adequately reflect the ultimate cost

• However, all years still show some adverse development of up to 20%
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.
Third Party Working Party
Appendices
Appendices

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

1. Additional statistics for Private Car Comprehensive Capped TPI
   • Claimants per claim
   • Reported claimant frequency
2. Geographical analysis
3. Motorcycle, CV Non-Fleet and Fleet
4. Benchmark development
5. Excess of Capped TPI results
   • Data Trends
   • Projected Ultimates
   • Analyses of Largest Claims
   • Adequacy of Case Estimates
1. Additional statistics for Private Car Comprehensive Capped TPI
   • Claimants per claim
   • Reported claimant frequency

2. Geographical analysis

3. Motorcycle, CV Non-Fleet and Fleet

4. Benchmark development

5. Excess of Capped TPI results
   • Data Trends
   • Projected Ultimates
   • Analyses of Largest Claims
   • Adequacy of Case Estimates
Private Car Comprehensive
Reported claimants per claim

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

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
Contents

1. Additional statistics for Private Car Comprehensive Capped TPI
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   • Data Trends
   • Projected Ultimates
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   • Adequacy of Case Estimates
Latest reported claim numbers and incurred claim amounts were provided split by geographic region.

These data were aggregated and a set of industry statistics produced that shows how key statistics vary by location in the UK.

These statistics are based on latest positions (i.e., on claim information excluding any estimate for IBNR or IBNER claims or amounts) which should be considered when interpreting any results.

The analysis was restricted to Private Car Comprehensive due to insufficient quantities of data in other lines of business.

Some differences in absolute level of KPIs compared with last year’s analyses are present.

These differences are caused by there being a different basket of contributing companies this year.

Relative trends generally reinforce the trends identified last year.
TPI / TPD numbers by TV region (Private Car Comprehensive)
TPI / TPD numbers by TV region (Private Car Comprehensive) – 2010 analysis for comparison
TPI / TPD numbers by TV region (Private Car Comprehensive)
Change in TPI / TPD Numbers (Private Car Comprehensive)
Change in TPI / TPD Numbers (Private Car Comprehensive) – 2010 analysis for comparison

TPI/TPD Numbers Rescaled

- Total Exposure
- London + South East (excl Kent and Essex)
- Central
- North West
- North East
- Kent + Essex (Excl M25)

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

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Change in TPI / TPD Numbers (Private Car Comprehensive)
Change in TPI / TPD Numbers (Private Car Comprehensive) – 2010 analysis for comparison
Third Party Injury average cost by TV region (Private Car Comprehensive)
Third Party Injury average cost by TV region (Private Car Comprehensive) – 2010 analysis for comparison
Third Party Damage average cost by TV region (Private Car Comprehensive)
Third Party Damage average cost by TV region (Private Car Comprehensive) – 2010 analysis for comparison
TPI Frequency by TV region (Private Car Comprehensive)
TPI Frequency by TV region (Private Car Comprehensive)
TPI Frequency by TV region (Private Car Comprehensive)
TPI Frequency by TV region (Private Car Comprehensive)
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   • Adequacy of Case Estimates
Notes to Accident Year Triangles

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

Exposure (vehicle years)
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)

Development month

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 nuls)

Development month

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

![Graph showing Paid to Incurred Ratio over Development months for different years.](graph)

**Inflation Rates**

- 09-10: -5.3%
- 08-09: -1.1%
- 07-08: 0.8%
- 06-07: 0.3%
- 05-06: 0.6%

**NB:** Source data treated for data errors.

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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 - All Distribution Channels - TPI Capped

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

Development month

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

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

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

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

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

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CV - All Distribution Channels - TPD

Paid to Incurred Ratio

Development month

Inflation Rates
09-10: -9.9%  08-09: -3%  07-08: 1.3%  06-07: -1.3%  05-06: 0.2%
CV - All Distribution Channels

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

Development month

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

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CV - All Distribution Channels - TPI Capped

Paid to Incurred Ratio

Inflation Rates
09-10: 15.4%  08-09: -0.8%  07-08: 6.9%  06-07: 1.6%  05-06: 1.2%
Fleet - All Distribution Channels - TPD
Incurred Average Cost - per claim (inc nile)

Inflation Rates
09-10: 1.7%  08-09: -5.4%  07-08: 6.2%  06-07: 1.2%  05-06: 12.9%
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 - All Distribution Channels
Ratio of TPI to TPD Reported Claim Numbers (inc nils)

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

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Fleet

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

Inflation Rates
09-10: 6.5%  08-09: 8.9%  07-08: -2.7%  06-07: 8.6%  05-06: -4.9%

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Benchmark Development - Incurred

Private Car Comprehensive - Excess BI Incurred Claims Development Pattern

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</table>

- 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…
### Private Car Comprehensive - Excess BI Claim Numbers Development Pattern

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- The table above shows the selected reported numbers development pattern for claims in excess of £100k (indexed)
- The table shows the cumulative development within the first year within the first row, the second year within the second row, and so on...
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Excess of Capped TPI Analysis

Introduction

• Data formats and analysis identical to IUA Bodily Injury Studies
• Anonymised data was provided for individual TPI claims relating to accident years 2000 through to 2010 (inclusive)
• Data was provided “as at” 31 December 2010
• The analysis investigated the cost of claims in excess of a threshold of £100,000 in 2010 money, indexed at 7% per annum
• The analysis was restricted to Private Car Comprehensive due to insufficient quantities of data in other lines of business
• Results are generally shown for accident years 2002 through to 2010, owing to reduced exposure for the 2000 and 2001 accident years.
Excess of Capped TPI Analysis

Introduction

- The threshold for the relevant accident years are based on £100k in 2010 money indexed at 7%
- The thresholds are slightly lower than those used in the capped claims analysis shown in the Capped Bodily Injury results (thresholds were equal to £50k in 1999 money indexed at 7% per annum, c.f. £47.5k in 1999 money)
- This was done to maximise consistency with the IUA Bodily Injury Studies

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>Threshold</th>
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<tbody>
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<td>2001</td>
<td>54,393</td>
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<td>58,201</td>
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<td>62,275</td>
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<td>2004</td>
<td>66,634</td>
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<td>2005</td>
<td>71,299</td>
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<td>2006</td>
<td>76,290</td>
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<td>2007</td>
<td>81,630</td>
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<tr>
<td>2008</td>
<td>87,344</td>
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<tr>
<td>2009</td>
<td>93,458</td>
</tr>
<tr>
<td>2010</td>
<td>100,000</td>
</tr>
</tbody>
</table>
Excess of Capped TPI Analysis
Data Summary

Summary of Excess of Capped TPI Data

<table>
<thead>
<tr>
<th>Accident Period</th>
<th>Earned Exposure (millions of vehicle years)</th>
<th>Percentage of market</th>
<th>Reported Excess of Capped Claim Numbers</th>
<th>Reported Excess of Capped Claim Frequency (claims per million units of exposure)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>10.7</td>
<td>71%</td>
<td>1,295</td>
<td>120.7</td>
</tr>
<tr>
<td>2003</td>
<td>12.2</td>
<td>74%</td>
<td>1,345</td>
<td>110.0</td>
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<td>2004</td>
<td>12.7</td>
<td>73%</td>
<td>1,250</td>
<td>98.6</td>
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<td>2005</td>
<td>13.1</td>
<td>75%</td>
<td>1,355</td>
<td>103.2</td>
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<tr>
<td>2006</td>
<td>13.1</td>
<td>75%</td>
<td>1,350</td>
<td>103.0</td>
</tr>
<tr>
<td>2007</td>
<td>12.5</td>
<td>72%</td>
<td>1,388</td>
<td>111.2</td>
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<td>2008</td>
<td>12.3</td>
<td>70%</td>
<td>1,210</td>
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<tr>
<td>2009</td>
<td>12.8</td>
<td>70%</td>
<td>1,169</td>
<td>91.5</td>
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<td>2010</td>
<td>13.0</td>
<td>72%</td>
<td>575</td>
<td>44.4</td>
</tr>
<tr>
<td>Total</td>
<td>112.3</td>
<td>73%</td>
<td>10,937</td>
<td></td>
</tr>
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</table>
Excess of Capped TPI Analysis
Background to following charts

• The following charts show key features of the development of the claims
• Some prior years have been omitted from some of the charts in order to focus on the areas of greatest interest
• The horizontal axis shows the number of development months since the start of each accident year.
Excess of Capped TPI Analysis
Data Trends

Excess of Capped Claim Frequency

Inflation Rates

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
<td>2009</td>
</tr>
<tr>
<td>-21.6%</td>
<td>-0.3%</td>
<td>-7.3%</td>
<td>6%</td>
<td>-1%</td>
</tr>
</tbody>
</table>

09-10: -21.6%  08-09: -0.3%  07-08: -7.3%  06-07: 6%  05-06: -1%
Excess of Capped TPI Analysis
Data Trends

Excess of Capped Settled Average Cost

Inflation Rates

07-08: 19.6%  06-07: -10.8%  05-06: 7.6%  04-05: -4.5%  03-04: 10%
Excess of Capped TPI Analysis
Data Trends

Excess of Capped Incurred Average Cost

Inflation Rates

09-10: 1.7%  08-09: 17.5%  07-08: 11.9%  06-07: 1.1%  05-06: 18.1%  04-05: -10%  03-04: 18.2%
Excess of Capped TPI Analysis
Data Trends

Excess of Capped Average Cost of Open Claims

Inflation Rates

09-10: 1.9%  08-09: 17.3%  07-08: 11.7%  06-07: 1%  05-06: 23.4%  04-05: -10.4%  03-04: 42.8%
Excess of Capped TPI Analysis
Data Trends

Ratio of Excess BI to TPD reported numbers

Inflation Rates
09-10: -16.1%  08-09: 0.7%  07-08: -2.6%  06-07: 1%  05-06: -5.1%
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
# Excess of Capped TPI Analysis

Projected Ultimate Claims

## Projected Ultimate Excess of Capped TPI Results for Private Car Comprehensive

<table>
<thead>
<tr>
<th>Accident Period</th>
<th>Earned Exposure (millions of vehicle years)</th>
<th>Ultimate Excess of Capped Claim Frequency (claims per million vehicle years)</th>
<th>Ultimate Excess of Capped Claim Severity (£)</th>
<th>Ultimate Excess of Capped Burning Cost (£)</th>
<th>Year-on-Year Change in Frequency (% pa)</th>
<th>Year-on-Year Change in Severity (% pa)</th>
<th>Year-on-Year Change in Burning Cost (% pa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>10.73</td>
<td>121</td>
<td>264,174</td>
<td>31.9</td>
<td>-9.3%</td>
<td>-9.3%</td>
<td>-17.7%</td>
</tr>
<tr>
<td>2003</td>
<td>12.23</td>
<td>110</td>
<td>239,715</td>
<td>26.3</td>
<td>-10.5%</td>
<td>17.2%</td>
<td>4.8%</td>
</tr>
<tr>
<td>2004</td>
<td>12.68</td>
<td>98</td>
<td>280,907</td>
<td>27.5</td>
<td>-1.6%</td>
<td>20.0%</td>
<td>18.0%</td>
</tr>
<tr>
<td>2005</td>
<td>13.13</td>
<td>101</td>
<td>254,733</td>
<td>25.8</td>
<td>6.4%</td>
<td>-0.7%</td>
<td>5.6%</td>
</tr>
<tr>
<td>2006</td>
<td>13.11</td>
<td>100</td>
<td>305,617</td>
<td>30.5</td>
<td>-4.2%</td>
<td>13.1%</td>
<td>8.4%</td>
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<tr>
<td>2007</td>
<td>12.48</td>
<td>106</td>
<td>303,334</td>
<td>32.2</td>
<td>4.2%</td>
<td>15.2%</td>
<td>20.1%</td>
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<tr>
<td>2008</td>
<td>12.27</td>
<td>102</td>
<td>342,928</td>
<td>34.9</td>
<td>-6.6%</td>
<td>-4.1%</td>
<td>-10.5%</td>
</tr>
<tr>
<td>2009</td>
<td>12.77</td>
<td>106</td>
<td>395,167</td>
<td>41.9</td>
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<tr>
<td>2010</td>
<td>12.96</td>
<td>99</td>
<td>378,975</td>
<td>37.5</td>
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<td></td>
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</table>
Excess of Capped TPI Analysis
Projected Ultimate Claims

Excess TPI Claim Numbers - Percentage of Ultimate

![Graph showing percentage of ultimate claims over development months for different years (2005-2010).]
Excess of Capped TPI Analysis
Projected Ultimate Claims

Excess TPI Incurred Claims - Percentage of Ultimate

% of Ultimate

Development Month

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## Excess of Capped TPI Analysis

Projected Ultimate Claims – By Layer

### Private Car Comprehensive Excess Results in Layer

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>£100k - 250k</th>
<th>£250k - 500k</th>
<th>£500k - 1m</th>
<th>£1m - 2m</th>
<th>£2m - 5m</th>
<th>&gt; £5m</th>
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</thead>
<tbody>
<tr>
<td><strong>Frequency (in layer and above)</strong> (claims per million vehicle years)</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>2002</td>
<td>68.0</td>
<td>27.7</td>
<td>14.1</td>
<td>6.9</td>
<td>3.0</td>
<td>0.8</td>
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<tr>
<td>2003</td>
<td>67.3</td>
<td>27.4</td>
<td>13.0</td>
<td>5.7</td>
<td>2.3</td>
<td>0.7</td>
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<tr>
<td>2004</td>
<td>65.4</td>
<td>26.6</td>
<td>12.7</td>
<td>5.8</td>
<td>3.1</td>
<td>0.7</td>
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<td>2005</td>
<td>70.9</td>
<td>26.4</td>
<td>13.2</td>
<td>6.0</td>
<td>2.8</td>
<td>0.6</td>
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<tr>
<td>2006</td>
<td>71.9</td>
<td>28.2</td>
<td>14.5</td>
<td>6.8</td>
<td>3.7</td>
<td>1.0</td>
</tr>
<tr>
<td>2007</td>
<td>83.5</td>
<td>33.1</td>
<td>16.7</td>
<td>6.4</td>
<td>3.2</td>
<td>1.0</td>
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<tr>
<td>2008</td>
<td>92.5</td>
<td>32.4</td>
<td>16.6</td>
<td>6.9</td>
<td>3.9</td>
<td>1.6</td>
</tr>
<tr>
<td>2009</td>
<td>90.7</td>
<td>35.0</td>
<td>19.4</td>
<td>9.7</td>
<td>5.8</td>
<td>2.2</td>
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<tr>
<td>2010</td>
<td>87.5</td>
<td>33.8</td>
<td>17.7</td>
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<td>4.3</td>
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<td><strong>Average Cost (£000s)</strong></td>
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<td>2002</td>
<td>93</td>
<td>171</td>
<td>343</td>
<td>614</td>
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<td>2003</td>
<td>92</td>
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<td>586</td>
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<td>718</td>
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<td>1,712</td>
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<td>88</td>
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<td>89</td>
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<td>325</td>
<td>661</td>
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<td>4.2</td>
<td>4.9</td>
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<td>3.3</td>
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<td>4.9</td>
<td>4.6</td>
<td>6.1</td>
<td>1.9</td>
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<tr>
<td>2007</td>
<td>7.7</td>
<td>5.7</td>
<td>5.3</td>
<td>4.1</td>
<td>4.9</td>
<td>2.9</td>
</tr>
<tr>
<td>2008</td>
<td>7.5</td>
<td>5.6</td>
<td>5.5</td>
<td>4.4</td>
<td>7.2</td>
<td>3.6</td>
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<tr>
<td>2009</td>
<td>8.1</td>
<td>6.2</td>
<td>6.8</td>
<td>6.4</td>
<td>9.5</td>
<td>4.1</td>
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<td>2010</td>
<td>7.9</td>
<td>5.9</td>
<td>5.8</td>
<td>4.8</td>
<td>7.2</td>
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</tr>
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</table>
# Excess of Capped TPI Analysis

Projected Ultimate Claims

## Private Car Comprehensive Excess Results in Layer

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>£100k - 250k</th>
<th>£250k - 500k</th>
<th>£500k - 1m</th>
<th>£1m - 2m</th>
<th>£2m - 5m</th>
<th>&gt; £5m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>41%</td>
<td>51%</td>
<td>49%</td>
<td>43%</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>41%</td>
<td>48%</td>
<td>44%</td>
<td>41%</td>
<td>32%</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>41%</td>
<td>48%</td>
<td>46%</td>
<td>52%</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>37%</td>
<td>50%</td>
<td>45%</td>
<td>47%</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>39%</td>
<td>51%</td>
<td>47%</td>
<td>54%</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>40%</td>
<td>51%</td>
<td>38%</td>
<td>49%</td>
<td>32%</td>
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</tr>
<tr>
<td>2008</td>
<td>39%</td>
<td>51%</td>
<td>42%</td>
<td>57%</td>
<td>40%</td>
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</tr>
<tr>
<td>2009</td>
<td>39%</td>
<td>55%</td>
<td>50%</td>
<td>59%</td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>39%</td>
<td>52%</td>
<td>41%</td>
<td>60%</td>
<td>58%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Proportion of claim numbers in layer above</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
</tr>
<tr>
<td>2003</td>
</tr>
<tr>
<td>2004</td>
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<tr>
<td>2005</td>
</tr>
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<td>2007</td>
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<tr>
<td>2008</td>
</tr>
<tr>
<td>2009</td>
</tr>
<tr>
<td>2010</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Proportion of xs 100k numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
</tr>
<tr>
<td>2003</td>
</tr>
<tr>
<td>2004</td>
</tr>
<tr>
<td>2005</td>
</tr>
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<td>2007</td>
</tr>
<tr>
<td>2008</td>
</tr>
<tr>
<td>2009</td>
</tr>
<tr>
<td>2010</td>
</tr>
</tbody>
</table>
Excess of Capped TPI Analysis
Projected Ultimate Claims

Proportion of Ultimate Claim Frequencies in Layer

- > £5m
- £2m - 5m
- £1m - 2m
- £500k - 1m
- £250k - 500k
- £100k - 250k

Accident Year

2002 2003 2004 2005 2006 2007 2008 2009 2010
Excess of Capped TPI Analysis
Projected Ultimate Claims

Proportion of Ultimate Burning Cost in Layer

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>Proportion of Ultimate Burning Cost in Layer</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>&gt;£5m (30%)</td>
</tr>
<tr>
<td>2003</td>
<td>£2m - 5m (20%)</td>
</tr>
<tr>
<td>2004</td>
<td>£1m - 2m (10%)</td>
</tr>
<tr>
<td>2005</td>
<td>£500k - 1m (5%)</td>
</tr>
<tr>
<td>2006</td>
<td>£250k - 500k (20%)</td>
</tr>
<tr>
<td>2007</td>
<td>£100k - 250k (10%)</td>
</tr>
<tr>
<td>2008</td>
<td>&gt;£5m (30%)</td>
</tr>
<tr>
<td>2009</td>
<td>£2m - 5m (20%)</td>
</tr>
<tr>
<td>2010</td>
<td>£1m - 2m (10%)</td>
</tr>
</tbody>
</table>

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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

<table>
<thead>
<tr>
<th>Frequency (claims per million vehicle years)</th>
<th>108</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severity (£)</td>
<td>371,881</td>
</tr>
<tr>
<td>Burning Cost (£)</td>
<td>40.2</td>
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</tbody>
</table>
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)

<table>
<thead>
<tr>
<th>Loss Year</th>
<th>Development Year (Figures in £000s)</th>
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<tbody>
<tr>
<td></td>
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</tr>
<tr>
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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)

<table>
<thead>
<tr>
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### Development Year (Figures in £000s)

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<tr>
<td>2010</td>
<td></td>
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### Annualised Escalation Rates

#### 3 Year Periods

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<td>8%</td>
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<tr>
<td>2005-2008</td>
<td>15%</td>
<td>13%</td>
<td>13%</td>
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<td></td>
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<tr>
<td>2006-2009</td>
<td>16%</td>
<td>19%</td>
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<tr>
<td>2007-2010</td>
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#### 5 Year Periods

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<tr>
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<td>2004-2009</td>
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<tr>
<td>2005-2010</td>
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Excess of Capped TPI Analysis
Analysis of Largest Claims

Claim severity triangle for Private Car Comprehensive (largest 200 claims per accident year)

<table>
<thead>
<tr>
<th>Loss Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<td>1,117</td>
<td>1,111</td>
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</tr>
</tbody>
</table>

Annualised Escalation Rates

3 Year Periods

| 2003 - 2006 | 5% | 7% | 13% | 9% | 11% |
| 2004 - 2007 | -10% | 5% | 7% | 7% |
| 2005 - 2008 | 17% | 15% | 17% |
| 2006 - 2009 | 16% | 22% |
| 2007 - 2010 | 21% |

5 Year Periods

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

<table>
<thead>
<tr>
<th>Loss Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
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<td>2003</td>
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<td>624</td>
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<td>825</td>
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<td>803</td>
<td>813</td>
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<td>592</td>
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<td>843</td>
<td>896</td>
<td>902</td>
<td>953</td>
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<tr>
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<td>2010</td>
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Annualised Escalation Rates

<table>
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<td>19%</td>
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<tr>
<td></td>
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</tbody>
</table>
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**

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>£2m - £3m</th>
<th>£3m - £4m</th>
<th>£4m - £5m</th>
<th>£5m - £6m</th>
<th>£6m - £7m</th>
<th>£7m - £8m</th>
<th>£8m - £9m</th>
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<tr>
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<td>9</td>
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<td>6</td>
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## Excess of Capped TPI Analysis
### Analysis of Largest Claims

Private Car Comprehensive - Latest incurred value (£000s) of largest 25 claims per accident year (settled claims in red)

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<td>21</td>
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<td>22</td>
<td>2,001</td>
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<tr>
<td>23</td>
<td>2,000</td>
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</tbody>
</table>
Excess of Capped TPI Analysis
Adequacy of Case Estimates

• We extracted claims from the data which had been reported before the end of development year one, and tracked their further incurred development relative to the year one position.
• This removes the effect of IBNR claims, allowing the impact of IBNER to the deterioration of claims experience to be separately assessed.
• An element of IBNER may be the identification of additional claimants on claims already reported.
• The calculation is then repeated using development year two to obtain a view of incurred development relative to the year two position.
• We show here only development beyond year 2.
Excess of Capped TPI Analysis
Adequacy of Case Estimates

Incurred development relative to month 12 (IBNER only)

- Percentage of month 12 incurred amount
- Development Month
- 2005
- 2006
- 2007
- 2008
- 2009

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Excess of Capped TPI Analysis
Adequacy of Case Estimates

Incurred development relative to month 24 (IBNER only)
Appendices

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

2. Slides from Pricing Seminar
Update from the Third Party Working Party
General Insurance Pricing Seminar, 21 June 2011
1. Scene Setting

2. Key developments since the last study

3. Industry Results
   1. Comp
      a) TPD
      b) TPI
   2. Non-Comp
      a) TPD
      b) TPI

4. Next Steps of the Working Party
Comp Exposure up over time: Non-Comp declining strongly

Since 2005
- Comp exposure has increased by 4.2%
- Non-Comp has declined by 63.7%
- Total exposure has reduced by 2.5%
Notes on Data

1. Claim Numbers Reported in calendar period as % of exposure
2. Private Car Comprehensive development graphs of key trends, TPD and TPI Capped (at £50k in 1999 money, indexed at 7% p.a.), including a refresh of last year’s position based on the latest data for ease of comparison
   - Reported claim frequency
   - Incurred average cost
   - Claim settlement rate
   - Paid to incurred ratio
   - Average cost of settled claims
   - Ratio of TPI to TPD claim numbers.

3. Note that “2009 statistic” refers to the position, as given in the current data, of accident years 2009 and prior as at 2009 year end. This will differ in detail from last year’s working party data.
Comprehensive

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

Implied 3.3%pa decrease since 2007 Q3

Quarterly Exposure (rolling 12 months) 000s
Comprehensive

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

Implied 6.2%pa increase since 2008 Q1
Third Party Working Party - Contents

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2. Key Developments since the Last Study

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

- Insurers must notify the CRU of all claims for compensation in order that the CRU can recover any state benefits paid from the liable insurer.
  - It may be possible for the insurer to offset some of the recoverable benefits paid to the CRU by deducting them from the amount of compensation paid to the claimant to avoid double compensation.
  - This offsetting is restricted within heads of damage so, for instance, claims for loss of earnings can be offset by any jobseeker’s allowance, whilst claims for cost of care can be offset by any attendance allowance paid by the Department of Work and Pensions.
- The number of claims notified to the CRU therefore provides a good measure of the total number of injury claims arising from road traffic accidents.
- The recovery of the costs of NHS treatment is also administered by the CRU under a separate scheme.
- A process map for the CRU is shown on the next slide.
Compensation Recovery Unit

Insurer is notified of an injury claim

If there are no recoverable benefits, CRU issues a certificate.

Insurer must notify CRU within 14 days. This is not an admission of liability.

Separately, CRU issues Certificate of NHS Charges

When insurer is ready to make an offer of compensation, it must apply to CRU for certificate of recoverable benefits.

CRU issues certificate within 28 days

Insurer notifies CRU of result of claim and date of final settlement

Insurer re-pays recoverable benefits to CRU within 15 days of making compensation payment.

Insurer pays compensation to claimant. May be able to offset some recoverable benefits.
CRU Data

- Number of motor cases registered to the Compensation Recovery Unit has increased in each year.
- The number registered in the 2010-11 financial year was 17% higher than in the previous year, the highest recent level of year-on-year growth, but sits in the context of a long term 10% trend.
- This is based on registration so may reflect an element of speeding up.
CMCs Update: bucking the general economic trend -
Authorised CMCs increased by circa 20% (2600 vs 2150)

Areas of previous high density are also areas of significant growth:
…top 20 areas from 2010 grew by 20% … Manchester/Liverpool by 50%
Turnover to Nov 2010 increased by 50% to £377m.

Count of authorised CMCs increased by 20% to 2600 in year to June 2010

Known hotspots continue to see growth:
• the top 20 areas from 2010 have seen around 20% increase

The highest % increases in density are more diverse geographically:
• Manchester and Liverpool both show increases of close to 50%
• strong growth in North East, West of London as well as the likes of Norwich, Exeter and Plymouth.

Some areas have reduced:
• Blackburn and Huddersfield are unusual in showing a reduction in the number of CMCs since 2010.
2.3 Update on Ministry of Justice Reforms

• Came into effect 30th April 2010
• For every £1 paid in compensation, 43p is paid in legal fees
  – for motor claims under £5000, this figure rises to 88p
• Aims to speed up the process of claims settlement and remove duplication of work and costs on the part of solicitors
• Applies to motor injury claims between £1000 and £10000 occurring in England or Wales.
• Strict timescales for an insurer to admit/deny liability and to make offers of settlement. If timescales not met then the claim falls out of the process
• The reduction in legal fees should also mean that solicitors have less capacity to pay referral fees to CMCs

However, Insurers have some concerns
Civil Justice: Consultation, England & Wales

- First major overhaul of the civil justice system in 15 years and reform of ‘no win no fee’ deals
- To prevent expensive / unnecessary litigation
- Proposals to make the system simpler, quicker, cheaper and more effective launched for consultation.

- Include plans to improve how court judgments are enforced
- Other measures include
- Expanding the use of a successful online system to
- Raising the maximum value for small claims from £5,000 to £15,000

- people receive what it is judged they are owed
- crack down on those debtors who won’t pay their debts
- abolish recoverability of success fees and associated costs in ‘no win no fee’ conditional arrangements
- introduce automatic referral to mediation in small claims cases
- mediation awareness sessions in higher-value cases, (to help people avoid court where possible)
- propose to raise the small claims limit and to change the county court jurisdiction so that the High Court is used for bigger and more complex claims only.
- introduce a 10 per cent increase in general damages, and a mechanism to protect the vast majority of personal injury claimants from paying a winning defendant’s costs (through qualified one way costs shifting).
- encouraging parties to make and accept reasonable offers
- Introducing a new test to ensure that overall costs are proportionate
- increasing the costs which can be recovered by people who win their cases without representation by lawyers
- slash waiting times and legal expenses using online system…….the time taken to resolve road traffic accident personal injury claims of up to £10,000 has dropped from one year to four months in some cases
- propose expanding the availability of this online system to process Employers’ Liability and Public Liability personal injury claims as well as deal with higher value claims of up to £50,000.
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4. Next Steps of the Working Party
Reported Claim Frequency (inc nils)

Private Car Comp - All Distribution Channels - TPD

• Accident frequencies are down year on year
• Record drop in 2010 of 6%

Development month

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

Inflation had eased in 2009 but has picked up in 2010.
Settled inflation is broadly consistent with incurred inflation.
2010 Statistic

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

- Settlement appears to have increased across all years
- Any distortions due to settlements at nil are not material

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

Although settlement rate has increased it has not led to faster payments

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)

- Frequency appears broadly flat but there were fewer accidents
- MOJ reforms introduced 30 April 2010
- Frequency inflation is lagging indications from CRU data however
  - Timing differences
  - CRU include claimant/claim inflation
- Exposure has increase by 1.4%

Inflation Rates
09-10: 1.4% 08-09: 11% 07-08: 5.4% 06-07: 8.3% 05-06: 6.2%
2010 Statistic

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

Development month
Inflation Rates
09-10: 9.1%  08-09: 13.2%  07-08: 12%  06-07: 6.5%  05-06: 4.1%
Inflation on an incurred basis continues to be low.
2009 Statistic (using latest data)

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

Average settled inflation was 20%

- Inflation rates on settled claims were showing extremely higher inflation rates, particularly bearing in mind that 2007 to 2009 have similar settlement rates
- There was evidence of calendar year changes since the end of 2008 which is arguably even evident in 2005

But how has this picture progressed with 2010 data?
2010 Statistic

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

- Settled inflation was very high up to 2009 and higher than incurred inflation
- But no or limited inflation in 2010 consistent with incurred inflation

Inflation Rates
09-10: -1%  08-09: 11.7%  07-08: 12.9%  06-07: 2.3%  05-06: 3.3%
2010 Statistic

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

- Whilst MOJ only affects 2010 all years show an increase in the latest quarter
- Any distortions due to settlements at nil are not material

Inflation Rates
- 09-10: 11.7%
- 08-09: 3%
- 07-08: 2.2%
- 06-07: 1.6%
- 05-06: 1.3%
2010 Statistic

Private Car Comp - All Distribution Channels - TPI Capped

Paid to Incurred Ratio

- Speeding up of payments is faster than speeding up of settlements and is faster than TPD
- 2010 affected by MOJ phase 1 legal fees

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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2010 Statistic

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

Absolute average cost is higher than Comp (£1400) but inflation is roughly half that of Comp

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)

- Incurred experience corroborated by average settled cost

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2010 Statistic

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

- Claim frequency is double that of Comp
- Inflation was zero between 2009-2010

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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2010 Statistic

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

• Overall ratio significantly higher than Comp
• Inflation rates lower than Comp but remain material

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)

Development month

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

• Broadly consistent with Comp
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
- Average settled inflation in 2010 is 16%

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2010 Statistic

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

Claim Settlement Rate (inc nils)

- Strong speeding up to 2008 and stable since then
- No material distortion due to nils

Inflation Rates
- 09-10: 3%
- 08-09: 2.2%
- 07-08: 4.2%
- 06-07: 2.1%
- 05-06: 1.2%
2010 Statistic

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

Paid to Incurred Ratio

- Inflation consistent with Comp but this was not the case with settled claims

Inflation Rates
- 09-10: 15.5%
- 08-09: 5.1%
- 07-08: 5.1%
- 06-07: -0.9%
- 05-06: 8.2%

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