General insurance pricing seminar
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Changes in Bodily Injury Claims Handling
…and what they mean for actuaries

1 December 2011

Agenda

• Context
• Large Claims
  – Ogden
  – PPOs
• Attritional claims
  – MoJ Reforms
  – Claimants per claim
  – Fraud
  – Jackson
• Segmental Pricing
• Conclusions
Context

It’s never been so important to understand injury claims cost

But it’s never been more difficult

- Changes in environment
- Changes in processing
- Invalidates model assumptions – both globally and segmentally
Large Claims

- Frequency fairly stable
- Claims inflation
  - 4th IUA Study (2007) indicated 9% large claims inflation
  - Typically larger for the largest claims
  - Possibly falling slightly in more recent years
- Ogden
- PPOs / Lump sums

Ogden

- Discount rate
  - Set at 2.5% in 2001
  - Loosely based on 3 year average ILGS yield
  - A similar approach now would lead to a discount rate of ~1%
  - Helmot v Simon
- Lord Chancellor announced review on 9th November 2010
- APIL launched Judicial Review on 1st April 2011
- Lord Chancellor now expected to consult on methodology
- 7th Edition Tables published October 2011
- Impact of possible cut?
  - Increase in reserves c£2.5bn?
  - Ongoing cost c£500m p.a.?
  - Additional cost to NHSLA, MoD
- Deferred settlement waiting for a decision?
PPOs

- Additional cost
  - Reinsurance
  - Capital
  - Case-by-case review?
- Payment pattern
- Estimates?
- Impact of discount rate change on take-up?
- How to price
  - Treat as lump sum and load?
  - Separate allowance?

Source: Actuarial Profession Working Party – GIRO 2011
Attritional Claims

Here's a triangle...

Attritional Claims

Here's a triangle...

What is going on here?
How will these develop?
Attritional Claims

- Frequency increasing
  - Claims farming?
  - Recession?
  - Fraud?
  - MoJ?
  - Claimants per claim?
- Process changes
  - MoJ speeding up
  - Changes in legal fees
- Can we separately identify the two?

Can we separately identify the two?
• Probably not, but can enhance our level of confidence
  - Use different methods
  - Paid / Incurred triangles
  - Average cost
  - TPPD propensity
  - Operational time methods
  - etc
MoJ Reforms

- Apply to claims occurring from 30/4/10
  - But if handlers are geared up to the new timescales, are they applying them on older claims too?
  - Initial difficulties with portal
- Claims between £1000 and £10000
  - Leads to more £1000 claims?
  - Knock-on effect on larger claims?
- Accelerates notification and first payment

MoJ Reforms

MIB experience
- Claims against uninsured drivers follow MoJ process
- Claims against untraced drivers do not

Source: Towers Watson analysis of MIB data
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%

Claimants per Claim

- Increasing?
- Groupama – H1 2009 – report increase from 1.2 to 1.5
- Admiral defy market expectations – “no increase in claimants per claim”
- Are you tracking it?
- Frequency or severity?
- Impact on notification / payment patterns?
Fraud

- Increasing
- Geographical bias?
Actually it’s intensity of registered claims management companies.
Source: Third Party Working Party 2010

- Increasing
- Geographical bias?
- How are cases reserved?
- Impact on frequency – but what about severity?
- How many are not detected?
Jackson

- Government proposals published March 2011
- Non-recoverability of success fees / ATE premium
- Qualified one-way cost shifting
- 10% increase in general damages
- Possible reduction in frequency?
- Severity?
- Possible extension of MoJ to claims up to £50K
- Referral fees to be banned
- Consultation on reduction in fixed legal fees

Segmental Pricing

- Models
- Need to enhance signal
- Propensity models
- Postcodes
- How quickly will it change?
- Time test
Conclusion

- Talk to your claims team
- Data
- MI / Insight
- Use different methods
- Track your assumptions – what would you expect to see next?

REMEMBER – IT’S NEVER BEEN SO IMPORTANT!

Any Questions?