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This handout supports the research effort of the Institute and Faculty of Actuaries Third Party Working Party and is not written advice directed at the particular facts and circumstances of any given situation and/or data.

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.
Third Party Working Party

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

Acknowledgements

Working Party:
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  Peter Lowth
  Ben Train
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  Oliver Wallace
Market statistics

Notes on data

- The collection of contributing insurers has changed materially over the years. Relative to last year’s study this year’s includes one new insurer contributor; additional data from some contributors (generally relating to more accounts); and, in some cases, less data from other contributors.

- In addition, each year it is common for a number of insurers to make relatively subtle changes to their definitions of claim statistics. In the aggregate, these lead to distortions when comparing the market studies between different years.

- Not all contributors are able to supply data to support every claim statistic in each study. There are generally improvements (but not always) in the availability of data from year to year, and as such, the results of the most recent study will be based upon data from an increased proportion of the contributor companies (and not just new contributors). Again, this introduces a material distortion into any analysis which attempts to compare the results across different studies.

- Related to the above two points, the TPWP notes that, with regards to the consistency of claim statistic definitions, the data received for this year was generally of higher quality than has been the case in previous reviews.

- It is reasonably common for insurers to restate the claims statistics of prior accident years (and prior periods of development), particularly in the case where portfolios (including movements on prior year liabilities) have been acquired or disposed of by the contributor(s) in question. Other reasons for such changes can be changes in the availability of granular data pertaining to (potentially large) segments of portfolios (such as in the case where data is provided by bordereaux rather than being integrated in insurer administration systems) or in some cases changes in the mapping of data to classes.

- For this reason, we would recommend that if the user of the research wishes to understand how trends have evolved over time, then they should focus on looking at trends by accident year within the latest study, rather than attempting to compare the results across studies.

- Likewise we do not consider statistically valid any back engineering of individual contributors’ contributions.

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1. Introduction
2. Scene Setting
3. TPD: Market Statistics
4. Capped TPI:
   a. Market Statistics
   b. Insight
5. Excess TPI:
   a. Market Statistics
   b. Insight
6. Conclusions

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14 October 2013
Introduction

• This presentation summarises the findings of the fourth TPWP analysis of third party property damage ("TPD") and bodily injury ("TPI") claims.

• Initial results were presented in June covering analysis of TPD and capped TPI triangular data for Private Car Comprehensive, Commercial Vehicle Fleet and Commercial Vehicle Non-Fleet.

• This presentation also includes additional analysis split by claim size for Private Car Comprehensive data only.

• The TPD claims have been analysed in five layers, given in 2010 money, indexed at 7% pa for other accident years:
  - 0 to £1k
  - £1k to £10k
  - £10k to £20k
  - £20k to 50k
  - £50k +

• The bodily injury claims have been analysed in 11 layers, given in 2010 money, indexed at 7% pa for other accident years:
  - 0 to £1k
  - £1k to £10k
  - £10k to £20k
  - £20k to 50k
  - £50k to £100k
  - £100k to £250k
  - £250k to £500k
  - £500k to £1m
  - £1m to £2m
  - £2m to £5m
  - £5m +

• Bodily injury claims have further been split by head of damage (third party legal fees, damages, other).

Graph terminology

• When presenting results of a layered analysis, there is a choice in how to partition the claim amounts:
  - Type 1: In which claims that exhaust the width of a particular layer contribute an amount equal to the layer’s width
  - Type 2: In which claims that exhaust the width of a particular layer are removed from that layer, and the full claim amounts “from ground up” (“FGU”) are allocated to the next layer up.
**Introduction**

**Graph terminology**

- Using the Type 1 definition, a claim of £15,000 from accident year 2010 contributes:
  - £1k to Layer 1 (0 – £1k)
  - £9k to Layer 2 (£1k – £10k)
  - £5k to Layer 3 (£10k – £20k)
  - £0 to all other layers

- The chart shows the projected total TPI burning cost split by layer using Type 1 definition.

- In this presentation, any charts which use this definition will be accompanied with a version of this graphic. Shading represents the portion(s) of the claim that is relevant to the given statistic.

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**Introduction**

**Graph terminology**

- Using the Type 2 definition, a claim of £15,000 from accident year 2010 contributes:
  - £15k to Layer 3 (£10k – £20k)
  - £0 to all other layers

- The chart shows the projected total TPI burning cost split by layer using Type 2 definition.

- In this presentation, any charts which use this definition will be accompanied with a version of this graphic. Shading represents the portion(s) of the claim that is relevant to the given statistic.
Introduction
Methodology

• TPD claims have been projected by layer on a quarterly accident period basis and monthly development basis for all layers.
• For TPI, the contributors have been modelled split into three groups based on their excess incurred development.
  1. Companies with development over 120% at 24 months
  2. Companies with development between 80% and 120% at 24 months
  3. Companies with development less than 80% at 24 months
• All groups have at least three companies in them and over £1bn of premium in 2012.
• This allows for shifting proportions of business between companies with different case reserving philosophies.
• For TPI layers up to an including £100k to £250k the data has been projected on a quarterly accident period basis and monthly development basis and for higher layers on an annual accident period basis and monthly development basis.
• For TPD the projections were based on an equal weighting of paid and incurred modelling. For TPI the projections were based on incurred data with the exception of the three lowest layers where paid data was used if there was evidence of changes in case reserving.

Introduction
Methodology

• The Head of Damage analysis uses the following definitions to split the data into layers:
  • Only settled claims are used.
  • The heads of damage on each claim are assigned to the layer containing the total settled cost of the claim (indexed at 7% to 2010).
  • For example, if a claim settles at £75k then each head of damage will be allocated to the £50k to £100k layer and nothing will be allocated to any other layer – as with a Type 2 definition.
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Scene Setting

Summary

- Motor environment is evolving fast: but with tailwinds as well as headwinds from insurer perspective:
  - Gender Directive
  - Solvency II
  - Low investment returns
  - Fuel prices and the cost of motoring
  - Market premium decreases

- FSA returns for 2012 show a net COR of 105% and a loss ratio of 76% for 2012. (2)

- Our study covers the cost of third party claims, which make up 70% of motor insurance claims costs – the OFT figures cite 50% for TPI, 20% for TPD. (3)

- TPWP therefore focuses on the most material and analytically problematic areas of cost, in order to provide information to help actuaries, consumers, regulators and companies make informed decisions.

Sources

1. Confused.com/TW Insurance Price Index shows PCC rates dropped by 15.0% in 12 months to end June 2013
2. Deloitte Analysis of AM Best data
Scene Setting
Motor Premium Rate Movements

- The Confused.com/Towers Watson index shows that PCC premiums began to fall at the end of 2011 and fell for each quarter in 2012.
- Premium levels remained unchanged in the first quarter of 2013 but fell by 7.9% in the second quarter of 2013.
- Premiums are 15.0% lower at the end of 2013 Q2 than a year earlier and 21.0% lower than two years ago.

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### Property Damage

**Conclusions from June results**

**Frequency Inflation**
- 2012 TPD frequency continues to drop but at lower rate than for previous accident years (-1.6% from 2011), but with signs in Q4 that the drops may have ended.
- Reductions in frequency not explained by changes in miles driven.

**Severity Inflation**
- Incurred TPD severity inflation is 5.5% in 2012.
- TPD shows slightly higher overall level than PCC, with less favourable run off.

**Projected Ultimate TPD Results for Private Car Comprehensive**

<table>
<thead>
<tr>
<th>Accident Period</th>
<th>Earned Exposure</th>
<th>Ultimate TPD Claim Frequency</th>
<th>Ultimate TPD Claim Severity</th>
<th>Ultimate TPD Burning Cost</th>
<th>Year-on-Year Change in Frequency</th>
<th>Year-on-Year Change in Severity</th>
<th>Year-on-Year Change in Burning Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>19.3</td>
<td>43,126 (43,126)</td>
<td>1,225 (1,225)</td>
<td>52.8</td>
<td>12.1%</td>
<td>0.7%</td>
<td>12.9%</td>
</tr>
<tr>
<td>2005</td>
<td>11.4</td>
<td>48,332 (48,332)</td>
<td>1,234 (1,234)</td>
<td>59.6</td>
<td>-4.8%</td>
<td>14.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td>2006</td>
<td>13.1</td>
<td>44,086 (44,086)</td>
<td>1,413 (1,413)</td>
<td>62.3</td>
<td>-0.1%</td>
<td>15.9%</td>
<td>12.9%</td>
</tr>
<tr>
<td>2007</td>
<td>13.4</td>
<td>44,032 (44,032)</td>
<td>1,597 (1,597)</td>
<td>70.3</td>
<td>-8.8%</td>
<td>-0.1%</td>
<td>4.2%</td>
</tr>
<tr>
<td>2008</td>
<td>13.5</td>
<td>42,132 (42,132)</td>
<td>1,708 (1,708)</td>
<td>72.0</td>
<td>-4.3%</td>
<td>7.0%</td>
<td>2.4%</td>
</tr>
<tr>
<td>2009</td>
<td>14.2</td>
<td>46,457 (46,457)</td>
<td>1,779 (1,779)</td>
<td>72.3</td>
<td>-5.5%</td>
<td>4.2%</td>
<td>0.5%</td>
</tr>
<tr>
<td>2010</td>
<td>14.6</td>
<td>37,958 (37,958)</td>
<td>1,900 (1,900)</td>
<td>71.7</td>
<td>-6.6%</td>
<td>6.2%</td>
<td>0.8%</td>
</tr>
<tr>
<td>2011</td>
<td>14.5</td>
<td>32,933 (32,933)</td>
<td>2,066 (2,066)</td>
<td>68.1</td>
<td>-13.3%</td>
<td>9.4%</td>
<td>5.2%</td>
</tr>
<tr>
<td>2012</td>
<td>13.7</td>
<td>32,227 (32,227)</td>
<td>2,236 (2,236)</td>
<td>72.1</td>
<td>-5.1%</td>
<td>8.3%</td>
<td>5.9%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-3.8%</td>
<td>7.8%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

- Annual percentage changes quoted give the latest position of the relevant accident year divided by the equivalent position of the previous year (for example, the 2012 accident year position as at 31 December 2012 divided by the 2011 accident year position as at 31 December 2011).
- The annual percentage changes could be distorted by shifts in development pattern and hence the 'ultimate' inflation rates could be different from presented.
Property Damage
Projected Results (Type 2)

TPD cost is dominated by claims between £1k and £10k which account for 75% of the total TPD cost.

Around 40% of claims are below £1k in 2012.

Of the severity inflation in 2011 of 9.4%, 2.7% can be attributed to a shift in the % of claims within layers (in particular from claims £1k to £10k to £20k) and 6.5% to inflation within layers.

For 2012 the equivalent figures are 2.2% and 5.9%.

- Average cost inflation is high in the lowest layer resulting in more claims falling into the £1k to £10k layer.
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Capped bodily injury
Conclusions from June results

TPI to TPD ratios continue to increase with a 19% increase in 2011 and 4.5% increase in 2012.

Increase in claimants per claim was an inflationary driver in earlier years. However, this has been significantly lower post MOJ.

Late deterioration in claim frequency for 2010. Evidence of claims farming?

Note: TPI claims have been "capped" at £50,000 (for accidents in 1999, indexed at 7% per annum for other accident years). This is a slightly different cap from the layered analysis.
Capped bodily injury

Conclusions from June results

Commercial Vehicles (Fleet and Non Fleet) have not escaped the inflationary frequency trends seen in Private Car Comprehensive TPI capped

Projected Results (Type 1 – incl capped component of excess claims)

- Burning cost inflation post MoJ is in the range 6-9% whereas from 2007 to 2009 it was in the range 13% to 19%.
- 2012 is estimated to have frequency inflation of 3.3% and severity inflation of 5.8%. The 2012 severity is estimated to be above £10,000 for the first time.

Note: Bodily injury claims are capped at £100k in 2010 money, indexed at 7% pa.
Capped bodily injury
Projected Results (Type 2)

14 October 2013

• Around 70% of claims are estimated to be between £1k and £10k. These claims account for approximately 40% of the total capped bodily injury cost.

£0 to £1k layer has experienced significant inflation, with an average cost in 2012 approximately £800. This inflation is driven by an increasing proportion of these claims having a legal fee element. LASPO may reverse this trend.

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>£0 - 1k</th>
<th>£1k - 10k</th>
<th>£10k - 20k</th>
<th>£20k - 50k</th>
<th>£50k to £100k</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>3,740</td>
<td>8,179</td>
<td>18,385</td>
<td>36,287</td>
<td>48,287</td>
</tr>
<tr>
<td>2005</td>
<td>3,852</td>
<td>9,776</td>
<td>20,066</td>
<td>41,456</td>
<td>56,984</td>
</tr>
<tr>
<td>2006</td>
<td>4,200</td>
<td>11,017</td>
<td>22,250</td>
<td>45,269</td>
<td>63,279</td>
</tr>
<tr>
<td>2007</td>
<td>4,888</td>
<td>12,801</td>
<td>26,086</td>
<td>55,811</td>
<td>79,343</td>
</tr>
<tr>
<td>2008</td>
<td>6,466</td>
<td>14,758</td>
<td>30,279</td>
<td>73,218</td>
<td>109,029</td>
</tr>
<tr>
<td>2009</td>
<td>7,575</td>
<td>17,308</td>
<td>32,485</td>
<td>87,710</td>
<td>127,229</td>
</tr>
<tr>
<td>2010</td>
<td>8,566</td>
<td>18,012</td>
<td>33,210</td>
<td>99,250</td>
<td>127,229</td>
</tr>
<tr>
<td>2011</td>
<td>9,665</td>
<td>19,250</td>
<td>34,157</td>
<td>104,925</td>
<td>138,729</td>
</tr>
<tr>
<td>2012</td>
<td>10,285</td>
<td>20,886</td>
<td>35,470</td>
<td>108,243</td>
<td>141,029</td>
</tr>
</tbody>
</table>

Note that the KPIs in this table have not been indexed to 2010 money, only the band limits have. For example, the £43.5 burning cost for 2011 in the £1k to £10k layer is in 2011 money for claims between £1.07k and £10.7k.

Capped bodily injury
Projected Results (Type 2)

14 October 2013

• The proportion of cost for claims between £1k and £10k has increased from below 35% in 2004 to 40% in 2012.
Capped bodily injury
Projected Results (Type 2)

The increase in BI frequency in 2008 and 2009 observed across most size bands.

However, the increase in frequency in 2010 to 2012 restricted to the £1k to £10k band with frequencies flat or declining for higher claim size band.

The burning cost inflation for the £1k to £10k band is significantly higher than for total capped BI.

The graph shows the proportion of the total number of TPD claims resulting in TPI claims of various sizes.

While the ultimate proportion of TPD claims has increased over time for each layer, for the £1k to £10k layer the increase has been substantial.

Estimated total TPI/TPD ratio around 39%.
Capped bodily injury
Third party legal fees (Type 2)

- Head of damage analysis uses only settled claims, and Type 2 definitions based on settled cost.
- Graphs for each head of damage and claim size band are included in the appendices.
- The introduction of the MoJ portal in 2010 appears to have caused an increase in the proportion of claims with third party legal fees but there has been no further increase in 2011 and 2012.

The average cost of legal fees on claims which have a legal fee payment increased significantly from 2006 to 2009.

While the MoJ protocols and the fixed recoverable costs may have stalled this inflation in 2010, the inflation rate is 4.6% in 2011 and 7.9% in 2012.

The average cost for legal fees for claims between £1k and £10k is around £2.5k.
Capped bodily injury
Third party legal fees (Type 2)

- Consequently, legal fees are an increasing proportion of the cost of capped BI claims.
- The introduction of the MoJ process has not resulted in a reduction in the proportion of total claim cost from legal fees as intended.
- The reduction in fixed recoverable costs in 2013 may reduce this proportion.

Capped bodily injury
Damages (Type 2)

- The proportion of settled claims with a damages element (general or special) increased slightly in 2009 but has remained reasonably consistent thereafter.
- A small proportion of claims have no damages element. This may be due to a variety of factors, for example claims only having own legal costs or rehabilitation costs.
Capped bodily injury Damages (Type 2)

- The settled average cost inflation of damages on claims which have a damages element is higher than legal fee inflation.
- There has been an acceleration in settlement cost in 2012 calendar period which is most notable for 2011 accident year.
- Changes in average JSB guidelines are set out below:
  - 10th Edition – Sept 2010 – 3%
  - 11th Edition – Sept 2012 – 8%
  - LASPO & Simmons v Castle – Apr 2013 - 10%
  - 12th Edition due Oct 2013 - 3%

Capped bodily injury Damages (Type 2)

- The proportion of total cost relating to damages fell from 2006 to 2009 as legal fees increased but has remained reasonably consistent since.
- The proportion of claims cost going to the claimant has not increased since the introduction of the MoJ process as intended.
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Capped bodily injury
Claims Management Companies

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

Source:
https://www.claimsregulation.gov.uk/
http://www.justice.gov.uk/claims-regulation
Capped bodily injury
Claims Management Companies

- The number of authorised CMCs decreased to 1,869, a reduction of 24% in the year to March 2013. This compares to a drop of 5% in the previous year.

- The decline in the number of CMCs is accelerating. A third of the reduction occurred in the second half of March, probably driven by Civil Litigation Reforms, including LASPO and the reduction in fixed recoverable costs.

- The latest Claim Management Regulation report shows that turnover for Personal Injury sector (measured year to Nov 2012) has fallen by £101m from £455m to £354m. This is a 22% reduction and is in line with the reduction in the number of authorised CMCs.

Capped bodily injury
Claims Management Companies

- The graph shows the percentage change in number of CMCs from March 2012 to March 2013 by postal area excluding postcode areas with fewer than 6 CMCs.

- Most of the country is experiencing reductions. Most of the exceptions are in South East or the East Midlands

- The South East has the majority of postcode areas where there has been increase in CMC count.

- CMC densities have typically been lower in South London than North London but this gap is narrowing.

- Areas to the north west of London including Slough, Hemel Hempstead and Luton have also seen increases.
Scene Setting
Legislative Developments

**1 April 2013 – Notification basis**
- Referral fee ban
- Non-recoverability of ATE premiums and success fees from defendants
- 10% increase in general damages

**31 July 2013 – Accident basis**
- Extension of Portal to include RTA claims up to £25,000 and EL/PL claims
- Fixed recoverable costs within the RTA portal for claims between £10k and £25k:
  - £200 for Stage 1
  - £600 for Stage 2

**30 April 2013 – Notification basis**
- Reduction of fixed recoverable costs within the RTA portal (claims from £1k to £10k):
  - From £400 to £200 for Stage 1
  - From £800 to £300 for Stage 2
- Payment of Stage 1 portal fee pushed back until receipt of Stage 2 settlement pack - less scope for the "£400 club"

**Awaiting results of consultation**
- Independent medical panels for diagnosis
- Allowing more whiplash claims to be challenged in the small claims court
- Ogden OFT referral to Competition Commission
- Whiplash Inquiry

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**Capped bodily injury**
**MoJ Portal Notifications**

- The number of MoJ portal claim notification has increased by over 30% in March and April this year compared to same period in 2012.
- This is likely to be due to lawyers registering claims before the introduction of LASPO and the reduction of the fixed recoverable costs in the portal.
- The number of notifications has fallen in May and June of 2013 by 24% and 6% respectively compared to the same month in 2012.

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Source: [http://www.claimsportal.org.uk](http://www.claimsportal.org.uk)
Capped bodily injury
MoJ Portal Costs

- The impact of the 8% increase in General Damages under JSB guidelines in September 2012 has been blurred as claims are grouped by month settled rather than month notified.
- The effect of 10% increase to General Damages through LASPO can be seen in May & June 2013.

Impact of Legal Reforms (1 of 2)

<table>
<thead>
<tr>
<th>Possible Impact</th>
<th>Considerations for Actuaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spike of notifications pre-reforms as CMCs try to beat the referral fee ban</td>
<td>High development factors in Q4 2012 / Q1 2013 diagonals; high base for projection. Does this spike bring forward claims that would otherwise have been notified later?</td>
</tr>
<tr>
<td>Referral fee ban / reduced legal fees result in lower CMC activity and reduced future claim frequency</td>
<td>Allowance in pricing; Prior assumptions in reserving for B-F / Cape Cod methods. What are the characteristics of the claims that no longer arise – late-notified?, multiple claimant?, potential fraud indicators?, geographically concentrated?</td>
</tr>
<tr>
<td>10% increase in general damages</td>
<td>Allow for in average cost methods. Does your data allow you to consider GDs separately?</td>
</tr>
</tbody>
</table>
Impact of Legal Reforms (2 of 2)

<table>
<thead>
<tr>
<th>Possible Impact</th>
<th>Considerations for Actuaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced legal fees in and outside MoJ portal</td>
<td>Allow for in average cost methods. Lower proportion of legal fees will change development patterns if projecting BI / Legal combined. Caution should be used in view legal inflation post the 2010 measures.</td>
</tr>
<tr>
<td>Stage 1 legal fee now paid later in the process</td>
<td>Distorts development patterns based on legal payments (but incurred claim patterns should be OK?)</td>
</tr>
<tr>
<td>Claims between £10k-£25k now brought within MoJ portal</td>
<td>Speeding up of settlement; reduced legal fees. Does this band now develop more like the £0-£10k band?</td>
</tr>
<tr>
<td>Timing difference between fee reduction in portal and outside creates temporary incentive for claimant solicitors to force claims out of portal</td>
<td>Possible higher MoJ drop-out rate May-July leading to slower development / higher legal costs?</td>
</tr>
</tbody>
</table>

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Excess bodily injury
Projected Results (Type 1 – excl capped component of excess claims)

- The frequency of large claims has fallen by 3.7% on average since 2004.
- However the average severity has increase by 9.6% over the same period.
- The overall change in frequency for 2011 and 2012 has been small. However the estimated claims inflation is over 13%, and 2012 appears to be a poor year for large claims with an average severity of almost £600k. However there is material uncertainty in the projection of this year owing its immaturity.

14 October 2013

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Excess bodily injury
Projected Results (Type 2)

- It is unclear how PPOs are treated in this data and is likely to vary by data contributor.
- There is significant uncertainty in the projection of 2011 and 2012 owing to the relative immaturity of the years and the time taken for large claims to settle. This uncertainty is magnified for the very large claims where there are only a small number of claims.
Excess bodily injury
Projected Results (Type 2)

1. The proportion of claims cost for claims above £1m has increased somewhat over the period.
2. In 2009, which saw burning cost increase by 30%, over 50% of the burning cost came from claims over £2m.

The increases in overall severity for 2011 and 2012 come from an increase in frequency for very large claims (greater than £1m for 2011; between £500k and £2m for 2012)

As PPO propensity increases with the size of the claims, 2009, 2011 & 2012 are likely to be poor years for PPOs.
Excess bodily injury
Projected Results (Type 2)

Change in Frequency

<table>
<thead>
<tr>
<th></th>
<th>£100k - £250k</th>
<th>£250k - £500k</th>
<th>£500k - £1m</th>
<th>£1m - £2m</th>
<th>£2m to £5m</th>
<th>&gt; £5m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>-3.9%</td>
<td>-5.9%</td>
<td>-3.0%</td>
<td>3.6%</td>
<td>-1.2%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Average 4</td>
<td>-4.5%</td>
<td>-4.8%</td>
<td>0.7%</td>
<td>11.7%</td>
<td>3.5%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Average 2</td>
<td>-1.8%</td>
<td>-3.3%</td>
<td>5.5%</td>
<td>17.3%</td>
<td>4.5%</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

Long term fall in
delays.

Change in Average Cost

<table>
<thead>
<tr>
<th></th>
<th>£100k - £250k</th>
<th>£250k - £500k</th>
<th>£500k - £1m</th>
<th>£1m - £2m</th>
<th>£2m to £5m</th>
<th>&gt; £5m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>7.7%</td>
<td>6.4%</td>
<td>7.8%</td>
<td>7.8%</td>
<td>7.7%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Average 4</td>
<td>8.4%</td>
<td>6.3%</td>
<td>7.7%</td>
<td>9.0%</td>
<td>6.7%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Average 2</td>
<td>9.1%</td>
<td>6.9%</td>
<td>12.8%</td>
<td>8.2%</td>
<td>8.2%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

Long term average consistent with layer indexing.

Change in Burning Cost

<table>
<thead>
<tr>
<th></th>
<th>£100k - £250k</th>
<th>£250k - £500k</th>
<th>£500k - £1m</th>
<th>£1m - £2m</th>
<th>£2m to £5m</th>
<th>&gt; £5m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>3.4%</td>
<td>0.1%</td>
<td>4.6%</td>
<td>11.7%</td>
<td>6.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Average 4</td>
<td>3.5%</td>
<td>1.2%</td>
<td>8.5%</td>
<td>21.8%</td>
<td>10.5%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Average 2</td>
<td>7.2%</td>
<td>3.3%</td>
<td>19.0%</td>
<td>26.9%</td>
<td>13.1%</td>
<td>9.9%</td>
</tr>
</tbody>
</table>

Long term average burning cost higher for higher layers.

Excess bodily injury
Projected Results (Type 1 – excl capped component of excess claims)

• From 2006 to 2010 the large claim frequency trend matched the overall accident frequency reasonably well with around 0.2% of TPD claims resulting in a BI claim over £100k.

• However there has only been a modest decrease in large BI claim frequency in 2011 whereas the TPD frequency has fallen by 13% resulting in an increase in the excess TPI to TPD ratio.
1. Introduction
2. Scene Setting
3. TPD: Market Statistics
4. Capped TPI:
   a. Market Statistics
   b. Insight
5. Excess TPI:
   a. Market Statistics
   b. Insight
6. Conclusions

Excess bodily injury
STATS19 external data insight – weather and casualty type

<table>
<thead>
<tr>
<th>Injury severity distribution by Casualty type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fatal</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Pedestrian</td>
</tr>
<tr>
<td>Cyclist</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Injury severity distribution by Road conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fatal</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Rain</td>
</tr>
<tr>
<td>Snow/Ice</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

- STATS19 data includes data on type of casualty, severity of injuries and weather conditions of traffic accidents reported to the police.
- Higher likelihood of Severe/Fatal injuries when Pedestrians and Pedal Cyclists are involved.
- Variation in severity of injuries by weather conditions is less marked. Some evidence to suggest extreme snow and rain results in fewer severe injuries.
- This might have impacted the 2010 large claim experience where there was a significant amount of snow.
Excess bodily injury
STATS19 external data insight – casualty type trends

- Cyclists are becoming an increasing proportion of casualties (6.1% in 2005 to 9.8% in 2012).
- Proportion of pedestrians now 12.9% vs 12.4% in 2010.
- Consequently expect increasing proportion of pedestrian and cyclist casualties in large insurance claims.
- Given greater chance of serious injuries in these groups may expect to see gradual trend of increasing large claim costs.

Google Correlate

- Correlates data with internet search terms based on time (measured weekly)
- Are there any datasets which correlate with the numbers of casualties in UK road accidents that are
  1. Cyclists
  2. Pedestrians

Data Source: Google Correlate (http://correlate.googlelabs.com)
Cyclists

Potential connection to interest in biking which has seen same gradual increase and seasonality as cycling accidents

But top correlate is “leaf identification” where causal connection is much less clear!

Data Source: Google Correlate (http://correlate.googlelabs.com)

14 October 2013

Pedestrians

Bizarre musical connection for pedestrians

Although top correlate is children’s toys

Data Source: Google Correlate (http://correlate.googlelabs.com)
Conclusions

- Fewer accidents, but more TPI driven by whiplash type claims
- Greater costs per accident on TPD; capped and excess TPI
- Burn cost inflation of 6% (TPD), 9% (TPIC), 15% (TPIX) in 2012 (cf. long term averages of 4%; 9%; 6%) on 70% of cost of Motor Insurance, and yet rates down 15%
- Unprecedented reforms on capped TPI underway. Caution on positive impacts of these, building on lessons of persistent legal cost inflation following introduction of fixed cost regime in 2010
- Large TPI experience is volatile but inflationary: 2009, 2011 & 2012 are poor (so far). Poor experience is determined by increases in relatively small numbers of the very largest claims. Potential connection with increases in cyclists
Appendices