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With the exception of sense checks, no formal data validation has been carried out. Furthermore, whilst actuarial projections have been carried out using standard techniques, these have been judgement free. As such, were we to carry out reserves reviews for each market player and to total the results, this would likely differ from the results presented in this paper.

The materials contained in this presentation pack and any oral representation of it by the working party are outside the scope of the TAS.

Should anyone seeing this materials require clarification they should refer to the working party. This presentation should in any case be understood in the context of fuller papers which are available on the Actuarial Profession's website.
Third Party Working Party

Third iteration of the working party

- private car comprehensive
- £8.5bn earned premium for 2011:
  - Data from new contributors representing an extra £2.1bn in earned premium for 2011
  - Significant increase in number of contributors since last year, including new FSA and FSC (Gibraltar) regulated companies
  - Analysis of geography now supported by data at postcode sector level

Data collected, processed and analysed in aggregate by Towers Watson

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Working Party:
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- John Berry
- Simon Black
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1. Scene Setting
High Level Market Claims Data

- The chart shows that the frequency of reported Personal injury claims has started to increase again in 2011 having, to some extent, plateaued during 2010.
- Was 2010 an anomalous year?
- Has 2011 resumed the previous trend or is it the "final fling" before referral fees are banned.
1. Scene Setting

High Level Market Claims Data

- The frequency of reported TPD claims continues to decrease
- Increase in the gradient could be due to increase in petrol prices

1. Scene Setting

Legislation and the Market

- Motor environment is evolving fast: but with tailwinds as well as headwinds
  - Gender Directive
  - Solvency II
  - Low investment returns
  - Fuel prices and the cost of motoring
  - Market premium increases unwinding (1)
  - But still CORs above 100%

  - PPOs and review of Ogden discount rate
  - MoJ - extension of process, review of fees
  - LASPO Act (banning of referral fees)
  - Whiplash consultation, increase to SCT
  - OFT enquiry on credit hire / repair
  - Simmons v Castle - general damages up 10%

FSA returns for 2011 show a net COR of 106% and a loss ratio of 78% for 2011 (2)

- Our study covers the cost of third party claims which cover 70% of Motor Insurance claims costs – the OFT figures cite TPI – 50%, other TPD = 20% (3).

- Focus of working party (Third Party) is therefore on the most analytically problematic and the most material areas of cost and provides information to help actuaries, consumers, regulators and companies make informed decisions

Sources
1. Confused.com/Towers Watson Insurance Price Index shows Private Comp rates dropped by 12.7% in 12 months to end Dec 2012
2. Deloitte Analysis of AM Best data
1. Scene Setting

Legislative Developments

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

31 July 2013
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
Reduction of fixed recoverable costs within the RTA portal (for 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

1. Scene Setting

Ogden Discount Rate

- Current rate set at 2.5% in June 2001
- Mechanical application of this approach would now lead to a discount rate of c.1%.
- Lord Chancellor’s review of discount rate underway with consultation on the methodology:
  a. Recent ILGS yields (similar to 2001);
  b. Mixed portfolio of investments
- Consultation closed 23/10/12.
- New consultation announced on “whether the restrictions on the factors”...“are still appropriate” focussing on investment assumptions and whether Periodical Payment Orders (PPOs) should be encouraged
- Post consultation, any change to the discount rate unlikely before end-2013
- Reduction in rate would increase the cost of large personal injury claims:
  - Impacting Motor Liability and Commercial General Liability (EL/PL), but also MOD and NHS settlements
  - Increasing attractiveness to some claimants of lump sum awards relative to PPOs – although these may be encouraged anyway
  - With period of uncertainty potentially leading to delays in settlement of large claims (currently resisted by courts)
1. Scene Setting
Motor Premium Rate Movements

- Premiums have decreased over the last year, but different measures show differences. It is possible that the sampling technique in the ONS data introduces noise/skew.
- Both indices showed similar increases from 2008 to 2011Q2 but diverged from that point.
- Both the CPI and Confused.com/TW index have premium reductions for each quarter in 2012. The Confused.com/TW index shows an annual reduction of 12.7% as at 2012 Q4. The corresponding CPI index reduction is 9.6%.
- However, ONS data shows an increase in the first quarter of 2013 for the first time since 2011 Q4.

Source: Confused.com / Towers Watson Car Insurance Price Index Jan 2013 & ONS data April 2013

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1. Scene Setting
Vehicle Mileage & Petrol Price

- Relationship between Petrol Price and Vehicle Usage (since 1994)

Vehicle mileage source: http://www.dft.gov.uk/statistics/series/traffic
Petrol price source: http://www.speedlimit.org.uk/petrolprices.html
1. Scene Setting

Police Statistics

• Police statistics show a decreasing number of injuries against market TPI frequency increases.

• This data supports a view that TPI frequency inflation is more related to claiming behaviour than any change in the underlying risk.

1.1% 1.3% 1.5% 1.7%
150,000
200,000
250,000
300,000
50,000
100,000
150,000
200,000
250,000
300,000

Source: STATS19

Police vs Market data

1. Scene Setting

CMC Data

• Claim Management Companies: slightly fewer but more activity (+52% in 2010; +21% in 2011)

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

<table>
<thead>
<tr>
<th>Year</th>
<th>CMCs (000s)</th>
<th>Turnover (Year)</th>
<th>YoY % Inc</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>347.5</td>
<td>2010</td>
<td>52%</td>
</tr>
<tr>
<td>2008</td>
<td>377.0</td>
<td>2011</td>
<td>21%</td>
</tr>
<tr>
<td>2009</td>
<td>455.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>1,400</td>
<td>2012</td>
<td></td>
</tr>
</tbody>
</table>
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   b. Geography
3. Large Personal Injury Claims
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Projection of industry data on capped TPI Frequency and Severity

- Alternate years have shown High/Low frequency Inflation at 8% over the period
- Severity inflation has been higher since 2008 averaging 8% (10% excluding 2010 which was benign; but 6% in the post MOJ years)
Projection of industry data on capped TPI

Burning Cost per policy

<table>
<thead>
<tr>
<th>Year on Year Change in Burning Cost (%)</th>
<th>Ultimate Capped Burning Cost (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>0.0%</td>
</tr>
<tr>
<td>2005</td>
<td>5.0%</td>
</tr>
<tr>
<td>2006</td>
<td>10.0%</td>
</tr>
<tr>
<td>2007</td>
<td>15.0%</td>
</tr>
<tr>
<td>2008</td>
<td>20.0%</td>
</tr>
<tr>
<td>2009</td>
<td>25.0%</td>
</tr>
<tr>
<td>2010</td>
<td>20.0%</td>
</tr>
<tr>
<td>2011</td>
<td>18%</td>
</tr>
<tr>
<td>2012</td>
<td>18%</td>
</tr>
</tbody>
</table>

Burn cost inflation has averaged 14% since 2008 (18% excluding 2010; but 10% in the post MOJ years), with periods with 2009 and 2011 particularly high.

Transactional Analysis – 0-1k Layer

Data trends

The MOJ process appears to have sped up payments for small claims (to recap, for Stage 1, insurers have 15 days to accept/reject liability after which a fixed legal fee of £400 + VAT per claimant is payable within 10 days).
Questions and Provisional Answers

<table>
<thead>
<tr>
<th>Questions</th>
<th>Our Provisional Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. What is small TPI inflation?</td>
<td>• Burn cost inflation has increased slightly since 2008, now sitting at 15%. Greater numbers of claims between £20k &amp; £50k have been the greatest contributor to recent higher inflation. If future TPD frequencies do not drop, prospective burn cost inflation could be &gt; 20%.</td>
</tr>
</tbody>
</table>
| b. 2011 – catch up or new trend?      | • Catch Up from 2010 experience driven by  
  i. Anomalous weather in 2010  
  ii. MOJ changes disrupting CMCs?  
  • These support 2011 being a catch-up  
  • Relatively, 2010 should not develop adversely based on i; but ii could bring (diminishing) risk of “back-farming” |
| c. What do we know about multi-claimant claims? | • data supports £10k-£20k layer being dominated by multi-claimant claims, with c. 1.4 claimants / claim |
| d. How weak/strong are case estimates?  | • Case estimates were identified as weak in our 09/10 work; they have strengthened but are still a concern |
| e. What’s changed post MOJ?            | • Simple whiplash claims settling faster; inflation continues. Adverse operational impact on large claims now diminishing. |

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Geographic analysis
TPI frequency in 2011

The North West is a hotspot for TPI claims and for the location of Claim Management Companies.

Geographic analysis
TPI to TPD Ratio – 2011 Accident Year

The chart shows the highest and lowest towns by TPI / TPD ratio, together with their TPD frequency (x-axis) and exposure (size of bubble).

2011 is particularly subject to further IBNR development.
Geographic analysis
Bubble Chart – All – 2011 Accident Year

2011 is particularly subject to further IBNR development

All Postcode Areas
Google Motion Charts
80% of excess claims are under £500k; but almost 60% of the cost is for claims > £1m.
Excess of capped personal injury
Data trends

Excess of Capped Incurred Average Cost

- Strong and increasing inflation
- Increases could be exacerbated by anticipation of Ogden rate change

2010 is anomalously low with 2009/2011 high. Volatility could be geared by any case estimate impact on very large claims of Ogden.

Excess of Capped Average Cost of Open Claims

Even stronger inflation observed on open claims
**Projection of industry data on Excess TPI Frequency and Severity**

- Excess claims are volatile. 2009 was an adverse year. Our projections suggest that 2011 is worse, driven by the high frequency of claims > £1m.
- Claim frequencies have benefitted from reducing number of accidents (TPD). Year on year they deflate at a long run rate of 3%.
- Average costs have inflated at a long run rate of 11% driven by increases in the frequency of claims > £1m.

**Projection of industry data on Excess TPI Burning Cost per policy**

- Burn cost inflation is again highly volatile, particularly so in the last 3 years, but has averaged 8% over all years.
Excess of capped bodily injury
Projected Results

In terms of very large claim exposure 2009 & 2011 are bad years; with 2010 a good year
But clear increasing proportion of cost moving to layers > £1m

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5. Conclusions

• Personal injury inflation is a feature of the current UK motor market
• But the UK is itself very varied geographically
• New initiatives bring opportunity to stem/reverse inflation on small personal injury
• Risks continue on large personal injury (Ogden review and ongoing use of PPOs)

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.