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## Update from the Third Party WP

David Brown



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This document supports the research effort of the Actuarial Profession's working party and is not written advice directed at the particular facts and circumstances of any given situation and/or data.

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.



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## 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



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Data collected, processed and analysed in aggregate by Towers Watson

## Acknowledgements

### Working Party:

David Brown (Chair)  
 John Berry  
 Simon Black  
 Nigel Carpenter  
 Kyveli Charsouli  
 Matthew Fothergill  
 Leon Jones  
 Grant Mitchell  
 Anita Morton  
 Rhiannon Powell  
 Niraj Shah  
 David Slater  
 Ian Thomas  
 Neil Wilson

### Data contributors:

Acromas  
 Admiral  
 Ageas  
 Allianz Insurance  
 Aviva  
 AXA  
 Direct Line Group  
 esure  
 Groupama  
 LV=  
 MMA  
 NFU  
 Provident  
 RSA  
 Tesco Underwriting  
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 Louise Purchase & team  
  
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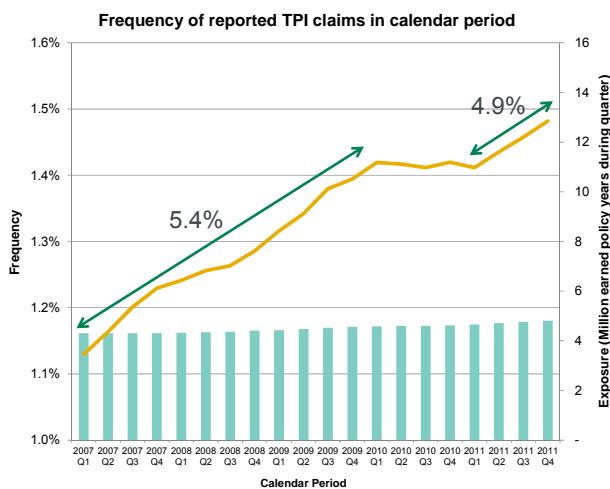
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2. Small Personal Injury Claims
  - a. Key Trends
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## 1. Scene Setting High Level Market Claims Data

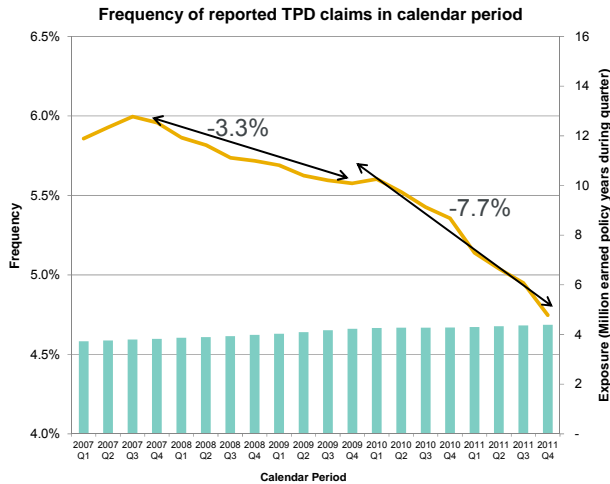


- The chart shows that the frequency of reported Personal injury claims has started to increase again in 2011 having, to some extent, plateaued during 2010.
- Was 2010 an anomalous year?
- Has 2011 resumed the previous trend or is it the "final fling" before referral fees are banned



# 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



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# 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 <sup>(1)</sup>
  - 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 <sup>(2)</sup>

- 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% <sup>(3)</sup> .
- 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
3. [http://www.ofc.gov.uk/shared\\_ofc/market-studies/private-motor-insurance/Motor\\_Insurance.pdf](http://www.ofc.gov.uk/shared_ofc/market-studies/private-motor-insurance/Motor_Insurance.pdf)

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## 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

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## 1. Scene Setting

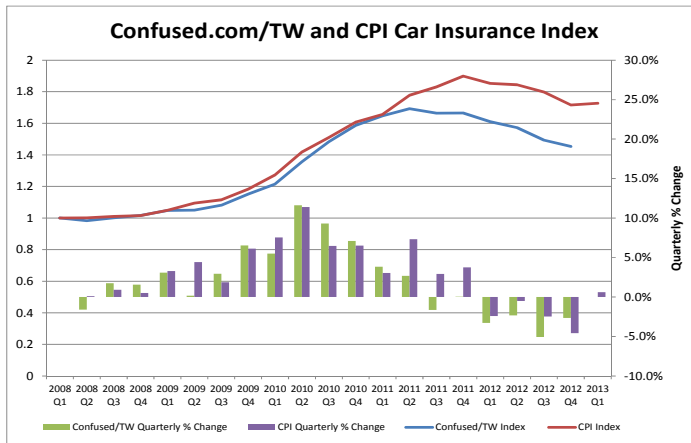
### Ogden Discount Rate

- 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)



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## 1. Scene Setting Motor Premium Rate Movements



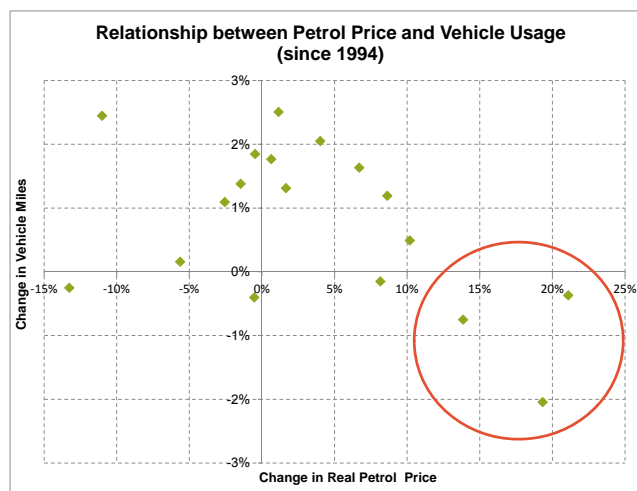
- Premiums have decreased over the last year, but different measures show differences: it is possible that the sampling technique in the ONS data introduces noise/skew
- Both indices showed similar increases from 2008 to 2011Q2 but diverged from that point
- Both the CPI and Confused.com/TW index have 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 does increase in the first quarter of 2013 for the first time since 2011 Q4.



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

## 1. Scene Setting Vehicle Mileage & Petrol Price



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

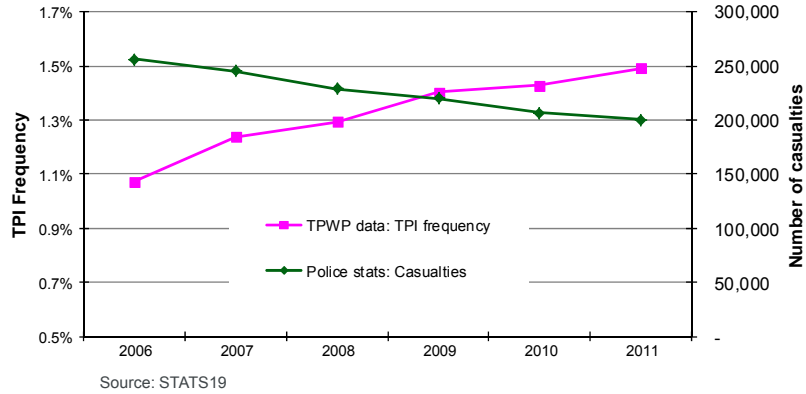
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# 1. Scene Setting Police Statistics

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

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

Police vs Market data



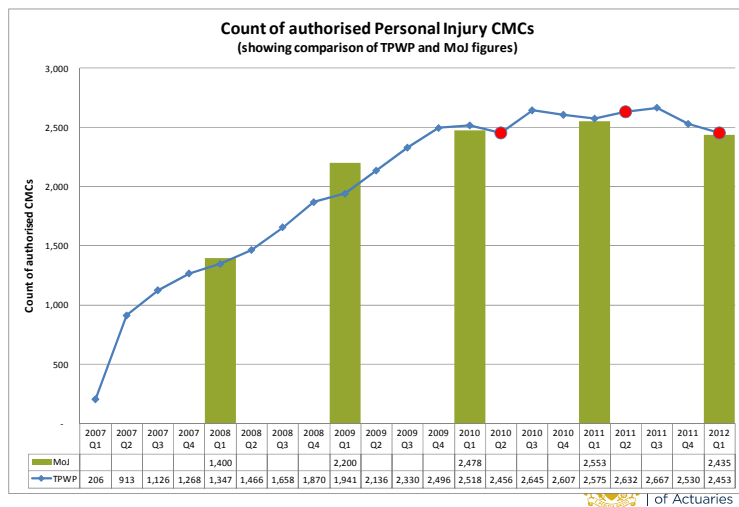
Source: STATS19

# 1. Scene Setting CMC Data

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

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

Year to Nov	CMC £m Turnover	YoY % inc
2007		
2008		
2009	247.5	
2010	377.0	52%
2011	455.4	21%
2012		



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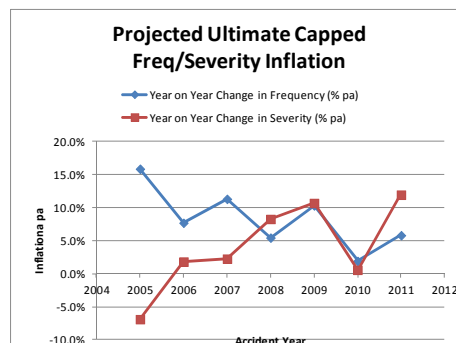
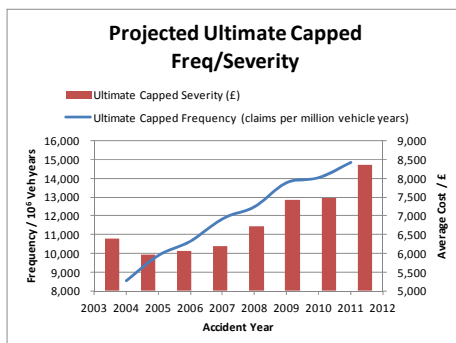
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## Projection of industry data on capped TPI Frequency and Severity



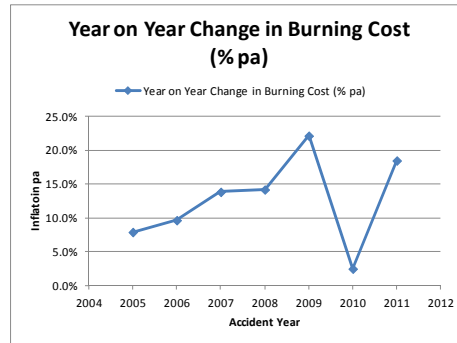
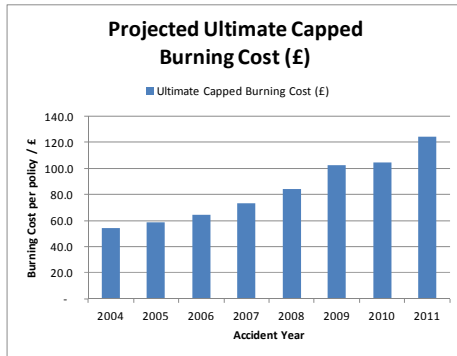
- Alternate years have shown High/Low frequency Inflation at 8% over the period
- Severity inflation has been higher since 2008 averaging 8% (10% excluding 2010 which was benign; but 6% in the post MOJ years)



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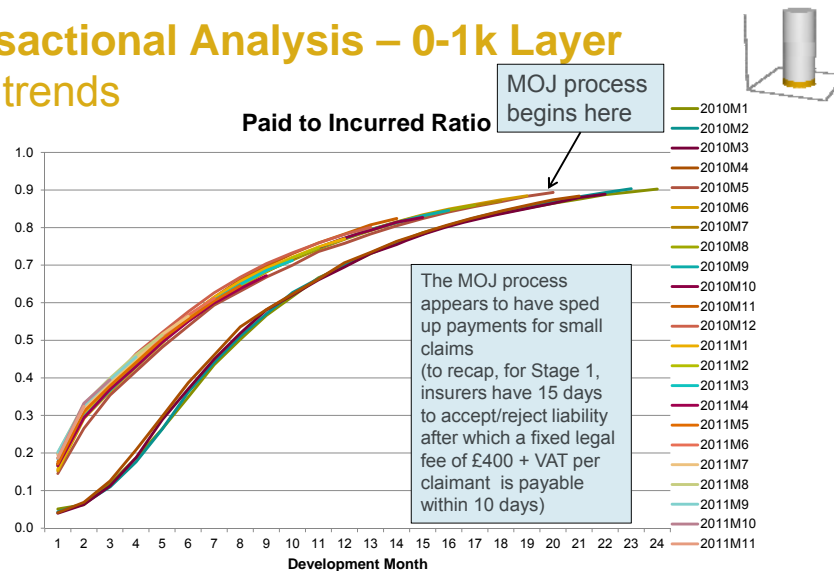
## Projection of industry data on capped TPI Burning Cost per policy



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



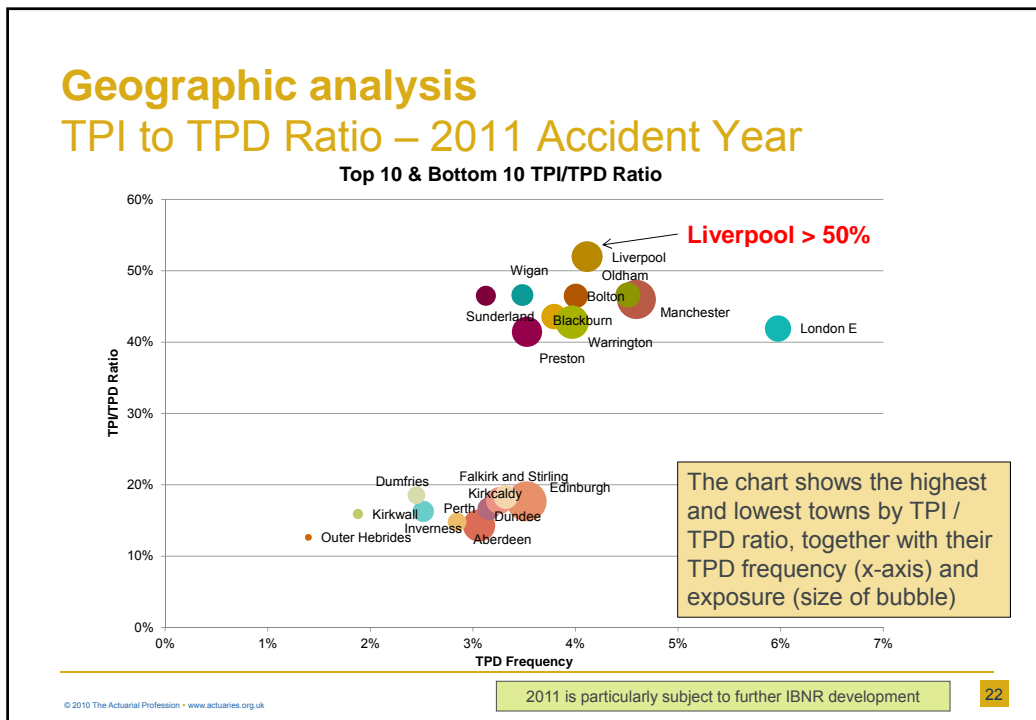
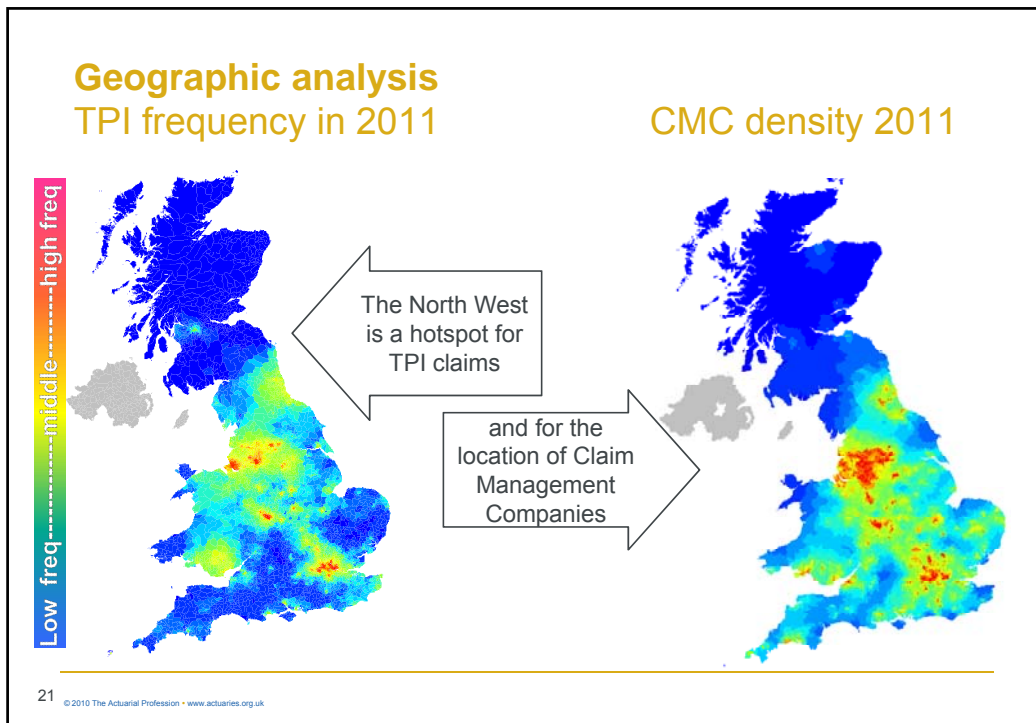
## Questions and Provisional Answers

	Questions	Our Provisional Answers
a.	What is small TPI inflation?	<ul style="list-style-type: none"> <li>• 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%.</li> </ul>
b.	2011 – catch up or new trend?	<ul style="list-style-type: none"> <li>• Catch Up from 2010 experience driven by               <ol style="list-style-type: none"> <li>i. Anomalous weather in 2010</li> <li>ii. MOJ changes disrupting CMCs?</li> </ol> </li> <li>• These support 2011 being a catch-up</li> <li>• Relatively, 2010 should not develop adversely based on i; but ii could bring (diminishing) risk of “back-farming”</li> </ul>
c.	What do we know about multi-claimant claims?	<ul style="list-style-type: none"> <li>• data supports £10k-£20k layer being dominated by multi-claimant claims, with c. 1.4 claimants / claim</li> </ul>
d.	How weak/strong are case estimates?	<ul style="list-style-type: none"> <li>• Case estimates were identified as weak in our 09/10 work; they have strengthened but are still a concern</li> </ul>
e.	What’s changed post MOJ?	<ul style="list-style-type: none"> <li>• Simple whiplash claims settling faster; inflation continues. Adverse operational impact on large claims now diminishing.</li> </ul>

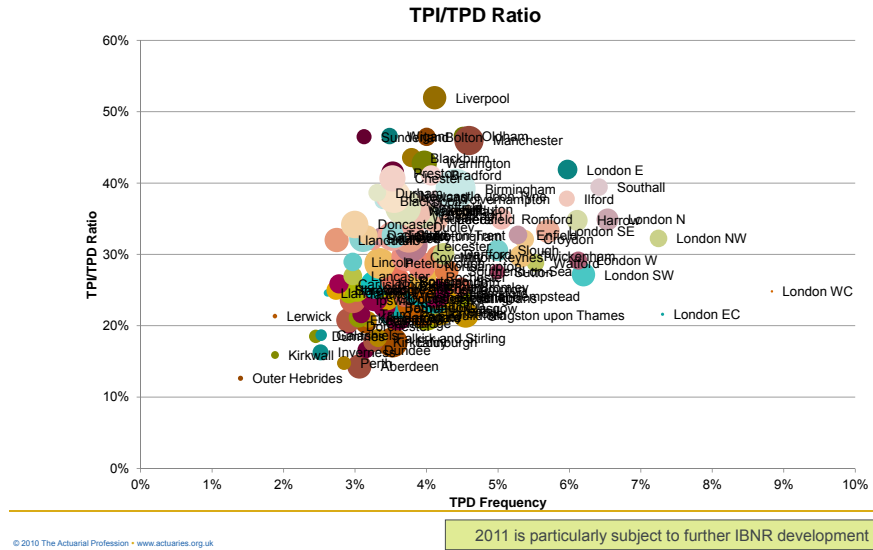
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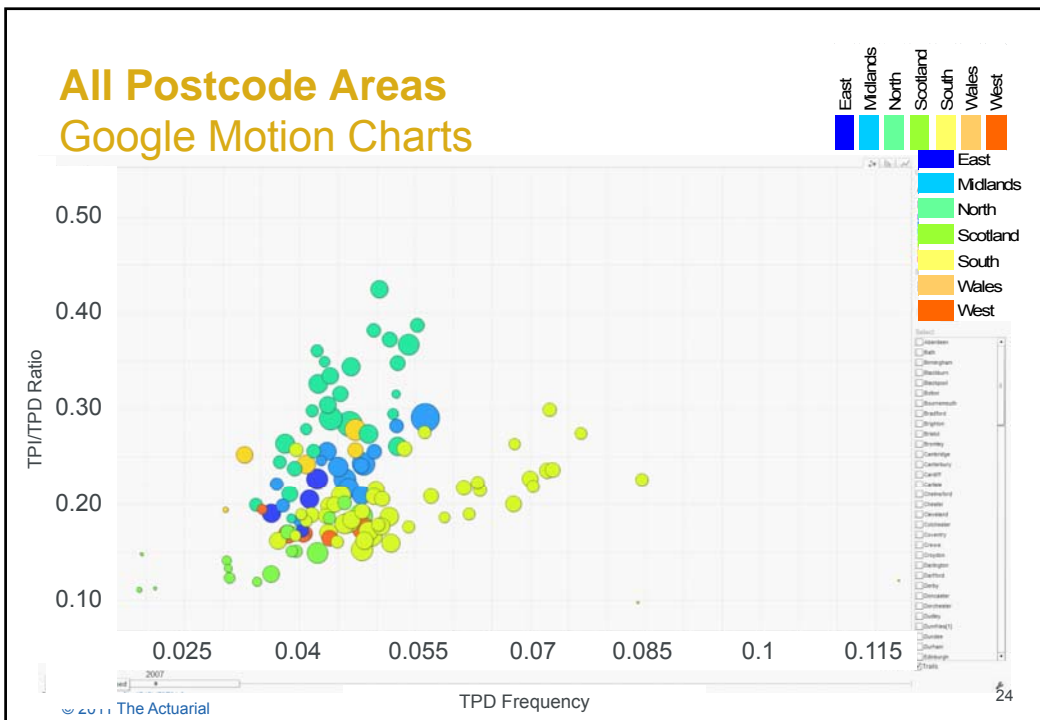
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# Geographic analysis Bubble Chart – All – 2011 Accident Year



# All Postcode Areas Google Motion Charts

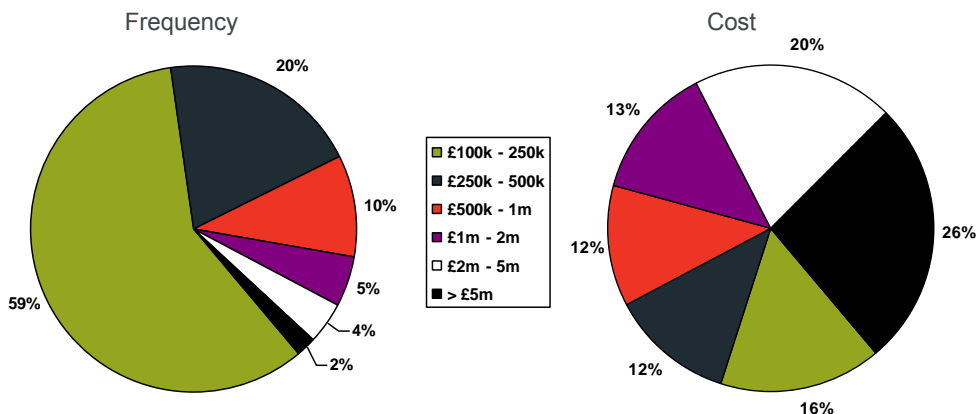


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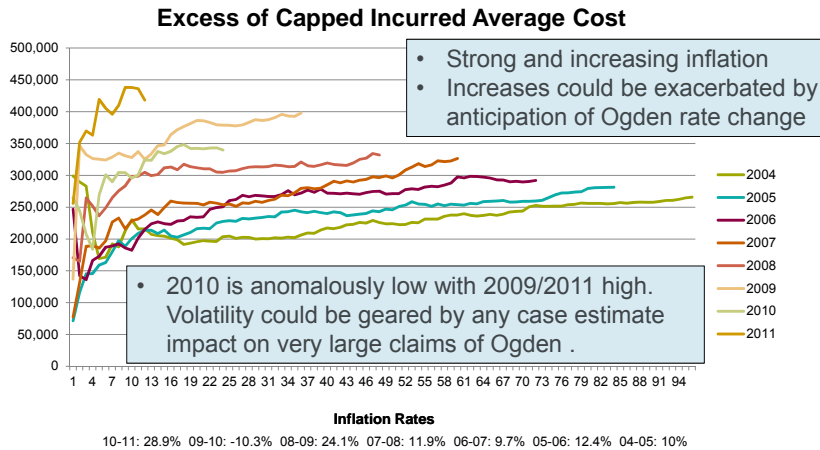
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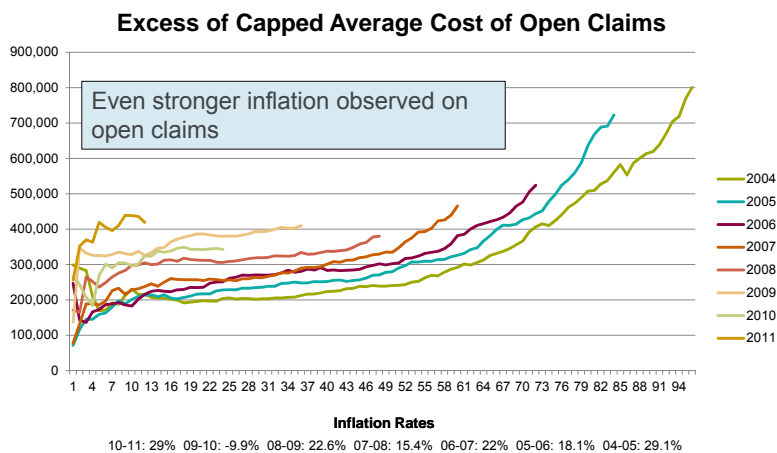
**80% of excess claims are under £500k;  
but almost 60% of the cost is for claims > £1m.**



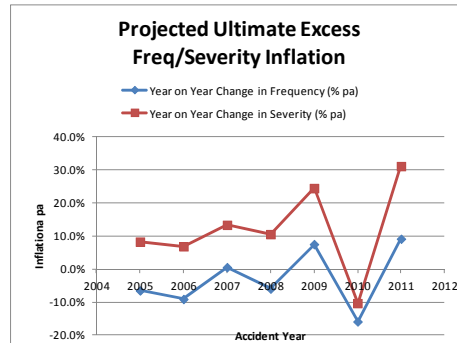
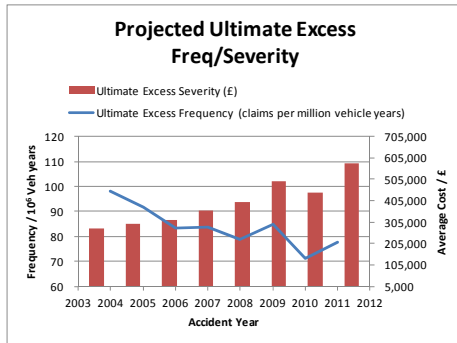
## Excess of capped personal injury Data trends



## Excess of capped personal injury Data trends



## Projection of industry data on Excess TPI Frequency and Severity

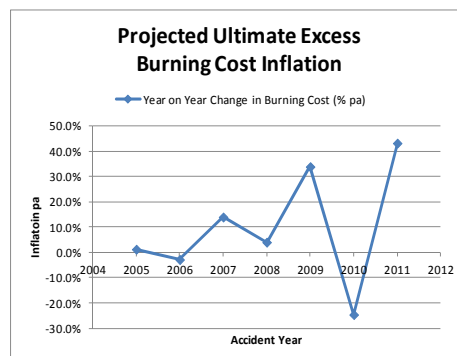
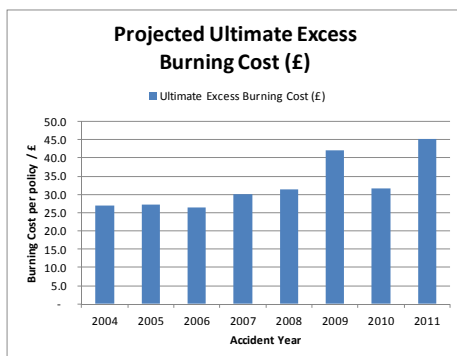


- Excess claims are volatile. 2009 was an adverse year. Our projections suggest that 2011 is worse, driven by the high frequency of claims > £1m
- Claim frequencies have benefitted from reducing number of accidents (TPD). Year on year they deflate at a long run rate of 3%.
- Average costs have inflated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



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



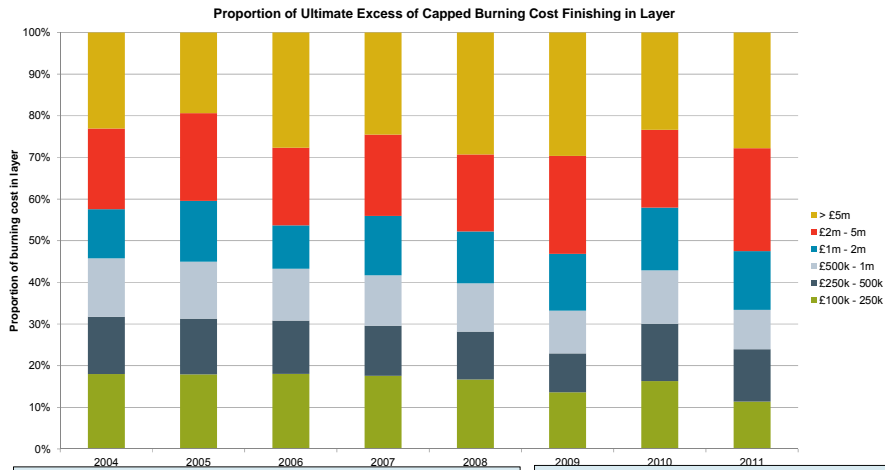
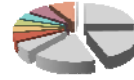
- Burn cost inflation is again highly volatile, particularly so in the last 3 years, but has averaged 8% over all years



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## 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.

