GIRO XXX
2003 Convention
14-17 October 2003
City Hall, Cardiff
Coping with Domestic Problems

Household Help

GIRO 2003 Workshop

Presented by
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and Susan Ley

With input from
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What will this workshop cover?

- Answers to quiz! Plus…
- Benchmark claim development patterns and ultimate loss ratios
- How rates have changed over time – for direct and catastrophe reinsurance
- Trends for troublesome perils e.g. subsidence, floods
- Household rating factors
Benchmark collection

Information sources

- UK Household covers perils such as:
  - Fire & theft, structural damage, weather damage (flood, storm, burst pipes), escape of water, ‘add-on’ cover (accidental damage)

- Therefore generally short-tail

- Collated paid and incurred claim development pattern and ULRs

- Used internal PwC data covering approximately 50% of the 10 largest UK insurers

- Use of FSA Returns limited as Household classifications not “clean”
Benchmark collection

Subsidence claims - Paid development patterns

Paid Development Pattern by Accident Year (Subsidence Claims)

“Not supplied here due to confidentiality of internal client information”

Source: PwC market data
Benchmark collection

Non subsidence claims - Paid development patterns

Paid Development Pattern by Accident Year (Non-Subsidence Claims)

“Not supplied here due to confidentiality of internal client information”

Source: PwC market data
Benchmark collection

Subsidence claims – Incurred development patterns

Incurred Development Pattern by Accident Year (Subsidence Claims)

"Not supplied here due to confidentiality of internal client information"

Source: PwC market data
Benchmark collection

Non subsidence claims - Incurred development patterns

Incurred Development Pattern by Accident Year (Non-Subsidence Claims)

“Not supplied here due to confidentiality of internal client information”

Source: PwC market data
Benchmark collection

Ultimate loss ratio

Comparison of ULRs can be difficult:
- Premiums net or gross of acquisition costs?
- Gross or net of reinsurance?
- Different evaluation dates
- Different mix of business
- Gross or net of commission / brokerage?
- Gross or net of claims handling expenses?
- Gross or net of third party recoveries?
- Different case estimation methodologies
- Quality and quantity of data available
Ultimate loss ratio


Source: PwC market data

“Not supplied here due to confidentiality of internal client information”
Quiz question 3

How do you think the Ultimate Loss Ratio experience (for buildings and contents combined) has changed in 2003 relative to the 2002 accident year?

a) Better by 5%+
b) Better by <5%
c) Similar
d) Worse by <5%
e) Worse by 5%+
Quiz question 3

Survey result (% response) - Expected ultimate loss ratio change from 2002 to 2003

Bar chart showing:
- Better by 5%+: 10
- Better by <5%: 60
- Similar: 20
- Worse by <5%: 0
- Worse by 5%+: 0
Rating factors

Direct insurers – how have rates moved over time?

Rate changes in flood plain area

Source: What-If
Rating factors

Direct insurers – how have rates moved over time?

Rate changes in non-flood plain area

Source: What-If
Quiz question 17

This graph plots trends in the cost of catastrophe reinsurance cover for the UK property market over recent calendar years. 2003 purchasing patterns are used to calculate the price that would have been paid each year since 1992 for the same cover. The price was then indexed to 1992 values.

Which trend line plots the true picture?

Source: Benfield Greig
Quiz question 17

This graph plots trends in the cost of catastrophe reinsurance cover for the UK property market over recent calendar years. 2003 purchasing patterns are used to calculate the price that would have been paid each year since 1992 for the same cover. The price was then indexed to 1992 values.

Answer:

Source Benfield Greig
Quiz question 6

What do you expect the 2003 figure for claims inflation of average cost per claim for contents insurance to be?

a) Below 2%
b) 2-3.9%
c) 4-5.9%
d) 6-7.9%
e) 8% and above
Quiz question 6

Survey result (% response) - Expected 2003 figure for inflation of average cost per claim for contents insurance
Quiz question 7

What do you expect the 2003 figure for claims inflation of average cost per claim for buildings insurance to be?

a) Below 2%
b) 2-3.9%
c) 4-5.9%
d) 6-7.9%
e) 8% and above
Quiz question 7

Survey result (% response) - Expected 2003 figure for inflation of average cost per claim for buildings insurance
Inflation comparison

Annual Percentage Change in RPI, ABI/BCIS Rebuilding Index and BCIS Repair/Maintenance index

Source: RICS / BCIS
Trends by peril

Source: Norwich Union – based on sub-sections of the household account
Quiz question 4

Can you identify which segment of the chart (a, b or c) relates to trends in gross incurred claims for each of Floods, Storms and Burst pipes/escape of water?

Weather Damage - Gross Incurred Claims

a) Storms b) Burst pipes/escape water c) Floods

Source: ABI Stats
Quiz question 1

What trends do you think the claims cost will experience over the next 3 years, compared to the last 3 years, for the following perils?

a) Accidental damage  
b) Escape water through Pitch Fibre pipes  
c) Escape water excluding Pitch Fibre pipes  
d) Floods  
e) Subsidence  
f) Fire  
g) Public liability  
h) Terrorism  
i) Other
Quiz question 1

Survey Results - Prediction of perils which will display the most worrying trends over the next 3 years

- Accidental damage
- Escape of water through Pitch Fibre pipes
- Subsidence
- Escape of water excluding Pitch Fibre Pipes
- Public liability
- Floods
- Fire
- Other
- Terrorism

Least Worrying

Most Worrying
## Trends by peril

### Peril summary

<table>
<thead>
<tr>
<th>Peril</th>
<th>Contents (C) or Buildings (B)</th>
<th>% of total claims cost</th>
<th>Length of tail</th>
<th>Trends in ACPC</th>
<th>Trends in Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidence</td>
<td>B</td>
<td>3-17%</td>
<td>Long</td>
<td>Depends on weather</td>
<td>Volatile from year to year</td>
</tr>
<tr>
<td>Fire</td>
<td>B/C</td>
<td>9-13%</td>
<td>Short</td>
<td>Dependent on contractors rates/level of consumerism i.e. goods in home</td>
<td>Stable</td>
</tr>
<tr>
<td>Escape of water</td>
<td>B/C</td>
<td>10-20%</td>
<td>Short</td>
<td>Dependent on contractors rates/level of consumerism i.e. goods in home</td>
<td>Stable</td>
</tr>
</tbody>
</table>
Quiz question 12

How has the claim frequency of subsidence claims moved in 2002 and how do you foresee it to move 2003?

Source: Norwich Union – based on sections of the household account
Quiz question 12

How has the **claim frequency of subsidence claims** moved in 2002 and how do you foresee it to move 2003?

Lines show survey responses, with the consensus amongst those at the GIRO workshop session being the yellow line.

Source: Norwich Union – based on sections of the household account
Quiz question 2

Can you identify which of the following perils is showing progressively faster payment patterns, as illustrated in the graph below?

Paid development by accident year

Subsidence

Source: PwC market data
Quiz question 9

The graph below shows the development of average cost per claim (each line represents a different insurer/policy type experience). Which peril do you think this is?

Subsidence

Source: PwC market data
Trends by peril

Subsidence

How does 2003’s rainfall compare to other years?

Rainfall in England and Wales as a % of six monthly seasonal average

Source: MET Office
Trends by peril

Subsidence

How does 2003’s rainfall compare to other years?

Rainfall in England and Wales rainfall (12 month moving average)

Source: MET Office
Quiz question 5

The planting of which of the following trees near the home is most likely to give rise to subsidence problems?

a) Palm Tree  
b) Oak  
c) Willow  
d) Hedge-Lleylandii
Quiz question 5

Most likely to cause subsidence:
- Willow
- Hedge-Leylandii

Least likely to cause subsidence:
- Oak
- Palm

Survey responses
Trends by peril

Floods

Different approaches to pricing/coverage
Quiz question 15

Which of the following comments have insurers not been quoted to say about flood coverage in 2003?

a) We are not looking to provide cover for new customers in known flood risk areas
b) We do not automatically refuse cover in any area of the country
c) Our aim is to quote extremely competitively in all areas – even those regarded as higher risk
d) In really exceptional circumstances, a premium loading of around 30% may also be applied
e) I can say for clarification that we will, in all likelihood, be reviewing terms and premiums for existing customers in areas in risk of flooding
f) The industry message here is really to stick with your current insurer who should be able to provide you with renewal terms post 1 Jan 2003

All have been said!
i) Approximately how many ‘flood events’ were recorded in Europe in the period 1993-2002, relative to the number in the previous ten years?

a) The same number
b) Twice as many
c) Three times as many
d) Five times as many
i) Approximately how many ‘flood events’ were recorded in Europe in the period 1993-2002, relative to the number in the previous ten years?

a) The same number  
b) Twice as many  
c) Three times as many  
d) Five times as many

Source: Global Reinsurance June: “Changing Euro Exposure”
Quiz question 16

Survey result - Estimated number of flood events recorded in Europe in the period 1993 - 2003, relative to the previous ten years.
ii) How do you think this figure will change in the next ten years?

a) Increase  
b) Decrease  
c) Stay the same
Quiz question 16

Survey response - Predicted change in the number of flood events in the next 10 years, relative to the period 1993-2003

- 70% Increase
- 30% Stay the same
Quiz question 13

Q13. How has the average size of fire claims moved in 2002 and how do you foresee it to move over 2003?

Fire average cost

Source: Norwich Union – based on sub-sections of the household account
Quiz question 13

Q13. How has the average size of fire claims moved in 2002 and how do you foresee it to move over 2003?

2002 line shows actual data – this matched the survey consensus; though the recent volatility may show a flattening out of the line.

Source: Norwich Union – based on sub-sections of the household account
Quiz question 14

Q14. How has the average size of escape of water damage claims moved in 2002 and how do you foresee it to move over 2003?

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Escape of Water average cost

Source: Norwich Union – based on sub-sections of the household account
Quiz question 14

Q14. How has the **average size of escape of water damage claims** moved in 2002 and how do you foresee it to move over 2003?

2002 line shows actual data – this matched the survey consensus

Source: Norwich Union – based on sub-sections of the household account
Quiz question 10

For contents insurance, if you had the choice of using only 6 rating factors, which would you choose?

- Sum insured
- Number of rooms
- Post sector
- Past experience or NCD
- Business use
- Occupancy during the day
- Owner status (e.g. landlord, tenant)
- Cross cover (buildings or contents cover or both)
- Building type (e.g. terrace or bungalow)
- Year of construction
- Type of locks
- Alarm fitted (burglar and smoke)
- Dog ownership
- Voluntary excess
- Smoker
- Accidental damage (add-on)
- Heating type
- Age of policyholder
- Height above sea level
- DEFRA/EA database (flood defence level by post sector)
Quiz question 10

Survey result – Most popular rating factors for contents insurance

- Age of policyholder
- Post sector
- Sum insured
- Accidental damage (add-on)
- Building type
- Past experience
  Or
  NCD
Quiz question 11

For buildings insurance, which of the following four rating factors do you think will prove least useful?

a) Voluntary excess
b) DEFRA flood defence information
c) Building type
d) Cross cover (is the person seeking buildings and/or contents cover?)
Quiz question 11

Survey result (% response) - Predicted least useful rating factor for buildings insurance
Which of the following claims are generally covered by Householder’s Building and Contents policy?

- Escaped horse causing car accident
- Damaged floor due to flooding washing machine
- Injury to house guest
- Cyclist knocking over pedestrian
- Loss of Wallet
- Mould claims due to damp weather
- Owner driving car into own house

Survey result – percentage of participants that said YES
Quiz question 8

Which of the following claims are generally covered by Householder’s Building and Contents policy?

- Escaped horse causing car accident: 70%
- Damaged floor due to leaking washing machine: 100%
- Injury to house guest: 100%
- Cyclist knocking over pedestrian: 60%
- Lost wallet: 50%
- Mould claims due to damp weather: 20%
- Owner driving car into house: 30%