



The Actuarial Profession

making financial sense of the future

Third Party Working party
GIRO October 2010

Third Party Motor Claims

Motor Market Size and Results

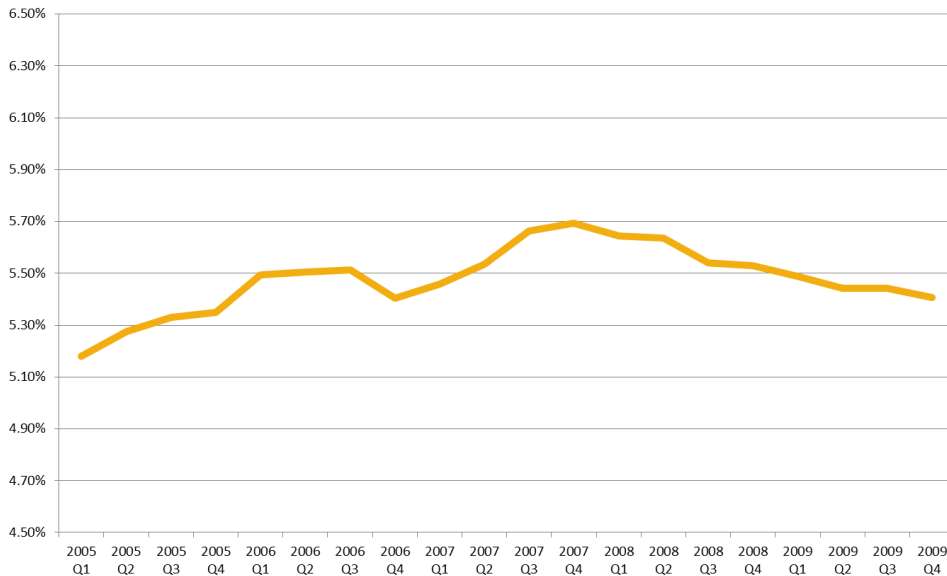
- 2009 NEP for FSA regulated entities > £8 billion
 - £6.3 billion personal motor
 - £1.8 billion commercial motor
- Other notables include Admiral (£900+ million), Zurich (c. £800 million), IAG (£364 million)
- 2009 claims ratio 89.7%
 - 92.6% excluding prior year releases
- Motor COR 118.2%
 - 121.1% for personal and 107.7% for commercial

(Source: FSA Returns)

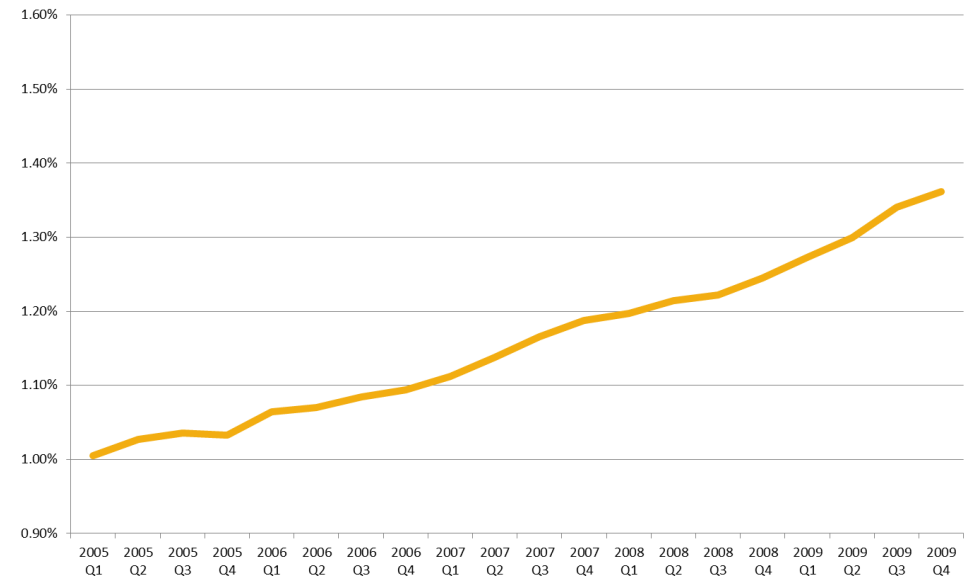
Preliminary Results

Reported Numbers of Claims (TPD and TPI)

Reported in Calendar Period as % of exposure (rolling 12 month)



Reported in Calendar Period as % of exposure (rolling 12 month)



Groupama

*“Groupama chief executive attributes recent slump in profits to **the increase in claims farming**”*

“All other lines are performing in-line with expectation...we have been surprised with the injury inflation....”

*“There has been an **increase in whiplash claims** suddenly people seem to have more sensitive necks. **Whether it is linked to the recession or a further significant increase in claims farming activities I am not sure but it could be both.** It certainly took us by surprise.”*

*Accidents **fell 5%** overall during the first half of the year, **the number of PI claims increased by 22%**. **The number of claimants per accident also rose from 1.2 to 1.5.***

Appealing to the insurance industry to help tackle the issue of claims farming, he added: “I would call on my fellow industry leaders to take action because we have to reduce this activity. It is not good for the industry and it is not good for the customers, as it is increasing premiums.”

Post Magazine, 9 September 2009

RBSI

Paul Geddes, RBSI chief executive, said: "...However, the most significant factor to impact our results is the estimated increase in claims costs, notably in the area of motor bodily injury claims. This is mainly due to an **upsurge in the frequency of bodily injury claims**, as well as an uplift in claim severity that has been driven by an **increase in the number of claimants** per claim. Significant action has now been taken to mitigate this impact by refining our claims handling processes and reflecting this exposure in our pricing.

"Net claims were significantly higher than expected in the quarter, with an increase of 22% compared with 2Q09. This was largely due to greater claims being made against our customers for bodily injury accidents, resulting in the need to strengthen both current and prior years' claims reserves by a total of £118m above that projected for the quarter..."

Post Magazine, 6 November 2009

"The performance of RBS Insurance was **adversely impacted by a significant increase in bodily injury** reserving, including adding £241m to reserves relating to prior years. This resulted in an underwriting and operating loss in the motor book.

H1 2010 Results, 6 August 2010

Zurich

The motor personal lines business is reflecting the difficult economic environment putting pressure on our generally strong margins. In the UK, the loss ratio deteriorated driven by the so-called credit hire practices as well as an overall increase in personal injury claims. We continue to respond to these developments through rate changes and through a dedicated claims management strategy.

Financial Statement 2009

Steve Lewis, chief executive of Zurich's UK general insurance business said, "We have seen a 30% increase in bodily injury frequency with a worsening trend throughout 2009. This, combined with high inflation, has resulted in a 50% increase in the cost of covering bodily injury losses in the last few years.

Post Magazine 14 Jan 2010

IAG

“Insurance Australia Group (IAG) today announced that due to a **significant deterioration in UK claim experience**, in particular bodily injury claims, it had conducted a further independent actuarial review of its UK business. As a result, in FY10 the Group expects to recognise an associated one-off, pre-tax charge of approximately \$365 million...”

“The anticipated **\$365 million charge in FY10 mainly relates to claim reserve strengthening...**”

“...the Group had previously highlighted an increase in the cost of bodily injury claims relating to the 2007 and prior underwriting years, however, the latest actuarial review has confirmed the **scope of the issue is greater than originally anticipated.**”

“The UK insurance industry has seen a significant increase in the cost of bodily injury claims. This includes a **notable rise in the number of injured parties per accident**, primarily driven by the ‘**claim farming**’ activities of accident lawyers. Recent industry reports indicate significant claims inflation in this area driven by increases in both frequency and severity. **Economically-inspired claim activity is also growing in a tough environment**”

Fortis

- Fortis commented that the performance in the private car book continues to be impacted by the industry-wide issues of increased personal injury claims and the need for further rate strengthening.

Post Magazine, 25 Aug 2010

Acknowledgements

Working party

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Data

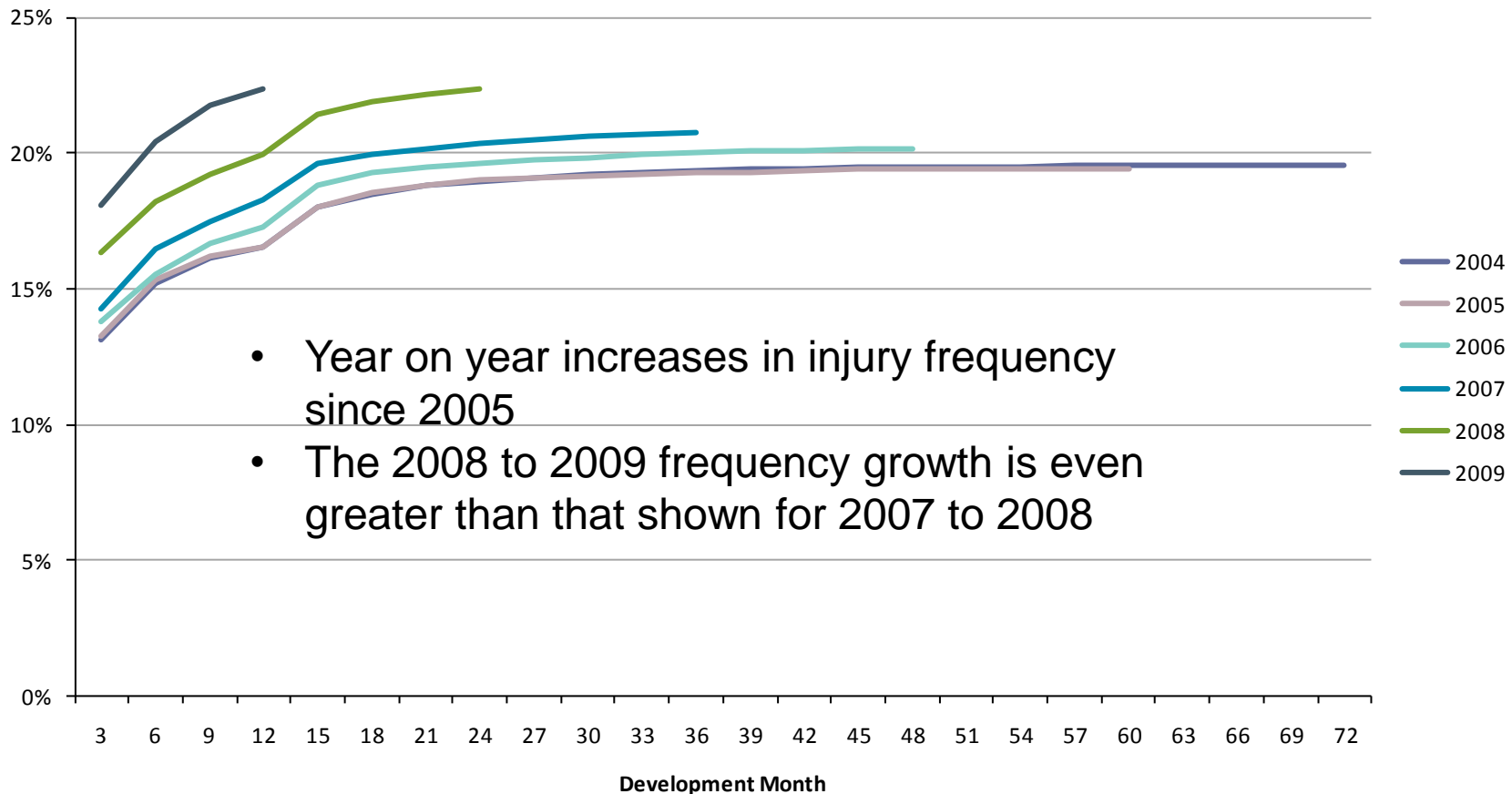
RBS
Aviva
RSA
Zurich
AXA
CFS
Esure
LV/Highway
Allianz
NFU Mutual
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- **Russell Jones & Walker** - Adam Tulk

Private Car Comprehensive TPI to TPD Numbers Ratio

TPI numbers to TPD numbers (inc nils) ratio

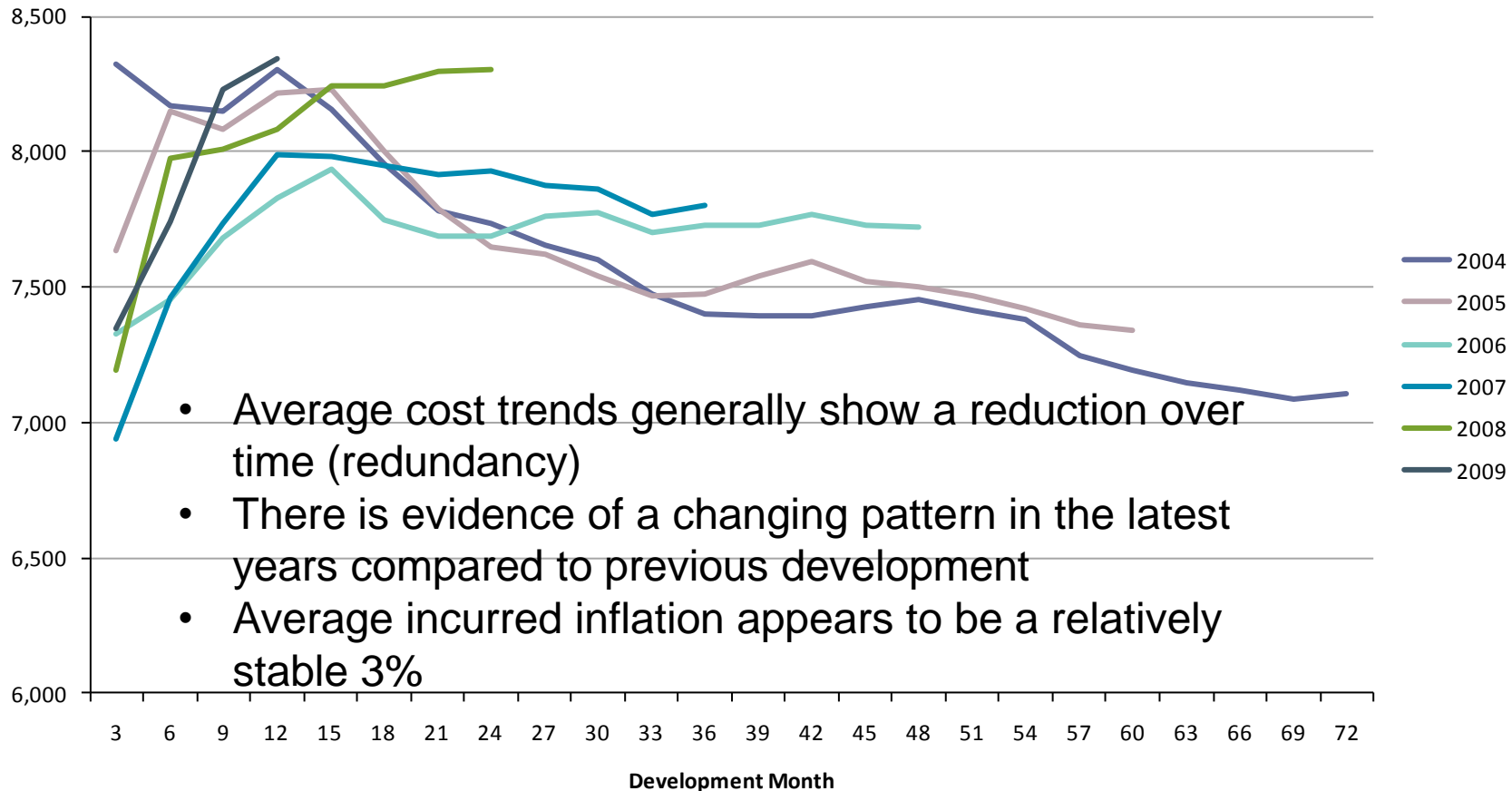


- Year on year increases in injury frequency since 2005
- The 2008 to 2009 frequency growth is even greater than that shown for 2007 to 2008

Inflation Rate: 08-09: 12.1% 07-08: 9.9% 06-07: 3.9% 05-06: 3.7% 04-05: -0.4%

Private Car Comprehensive Third Party Capped Injury

Incurred Average Cost

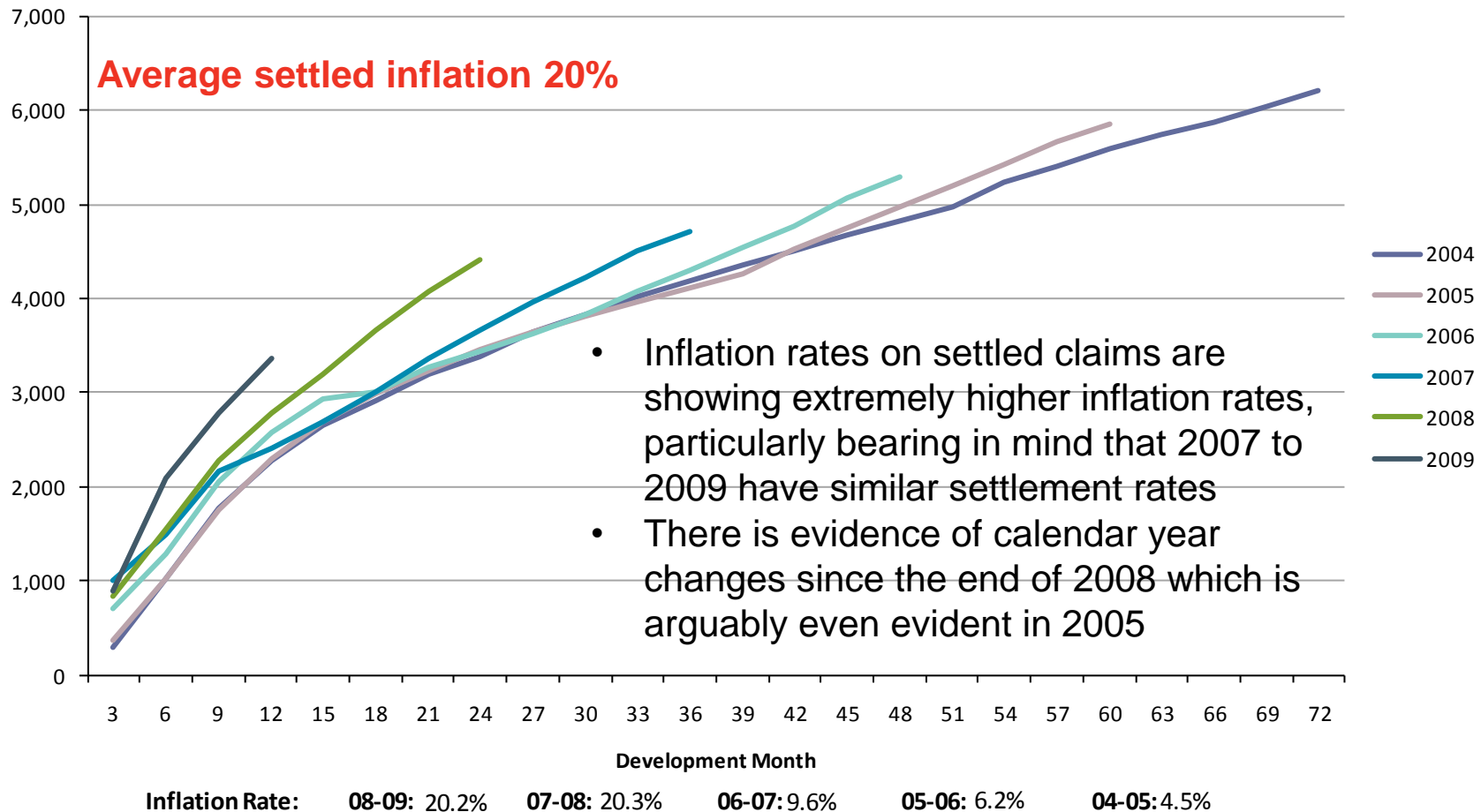


- Average cost trends generally show a reduction over time (redundancy)
- There is evidence of a changing pattern in the latest years compared to previous development
- Average incurred inflation appears to be a relatively stable 3%

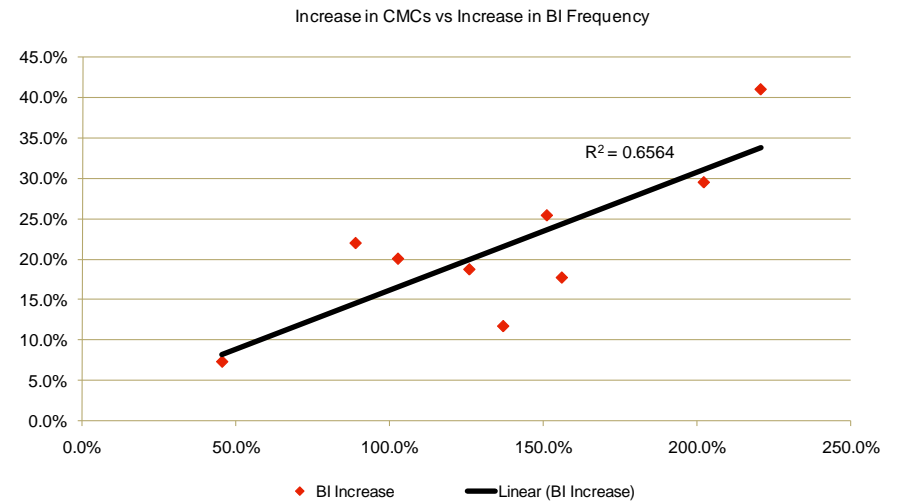
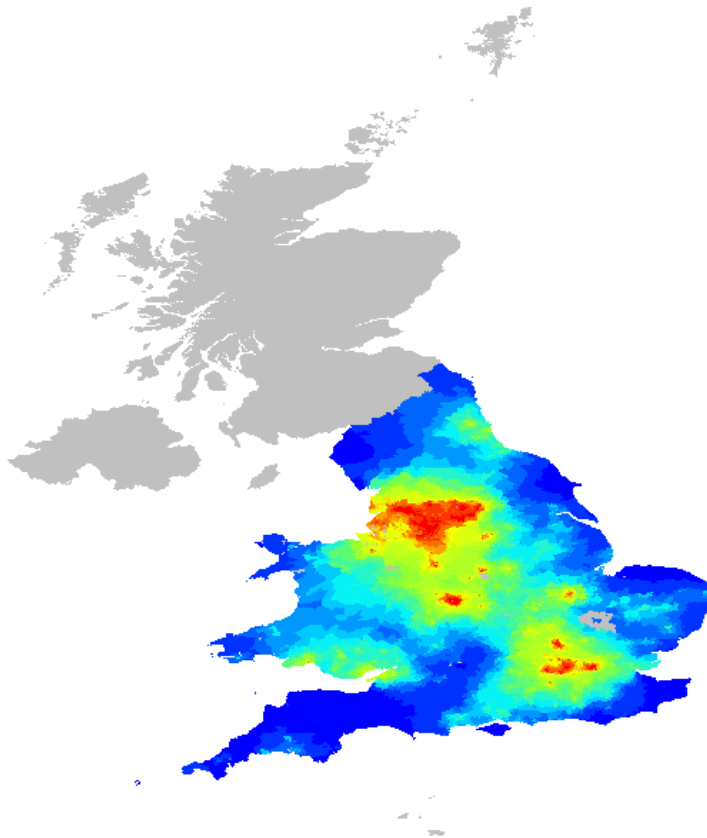
Inflation Rate: 08-09: 3.2% 07-08: 4.7% 06-07: 1.0% 05-06: 3.0% 04-05: 2.0%

Private Car Comprehensive Third Party Capped Injury

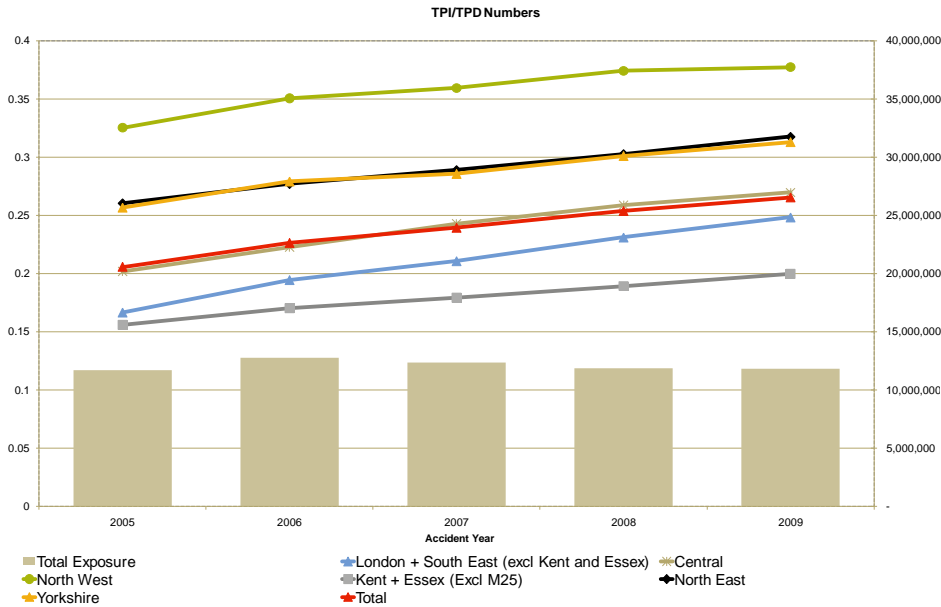
Average Cost of Settled Claims (incl Nils)



The Growth of Bodily Injury Correlates with the Growth in Claims Management Companies

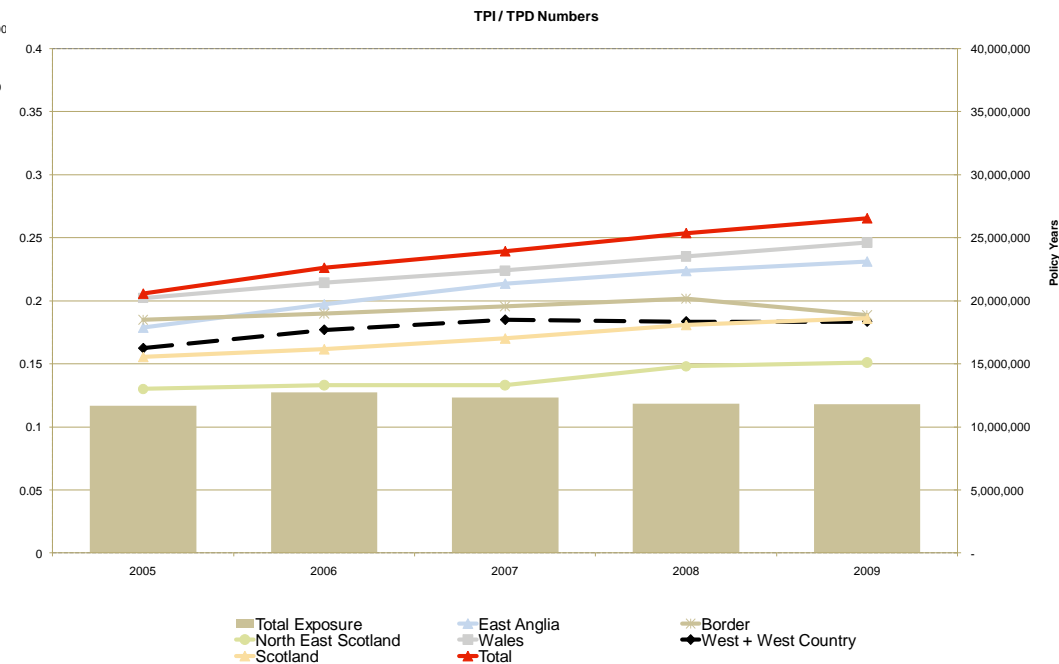


TPI / TPD numbers by TV region (Private Car Comprehensive)



- North West the biggest problem
- All TV regions are showing increases in frequency over time
- But London the greatest growth
- Latter years are undeveloped

- Notably Scottish TV regions show flatter trends probably linked to different legal systems



Conclusions

Challenges for the Actuaries

Reserving Actuaries beware!

- Incurred < Settleds

Pricing Actuaries beware!

- Frequency + 10% p.a. ('07 – '09)
- Average costs +20% ('08 – '09)
- Combined.....+30%

Can pricing keep up??

Can reserving keep up??

Challenges for Policy Makers

Farming is continent agnostic

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- North America, Australia, Asia and Europe all suffer
- China, France, Germany, Russia, Spain and Switzerland appear immune

Legislation can help

- Stopped farming (Germany, Switzerland, France, Scotland)
- Reduced the impact (Ireland)
- Failed to respond => a growing issue (Hong Kong, Poland)

French solution has natural flair; Irish Injuries Board made a real difference

What about MOJ/Lord Justice Jackson review?