Open Forum: The Third Party Working Party
David Brown, John Berry, Neil Wilson

The full results
of the 2011 study of
UK motor insurance

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Acknowledgements

Working Party:
David Brown (Chair)
John Berry
Simon Black
Nigel Carpenter
Kyveli Charsouli
Leon Jones
Grant Mitchell
Anita Morton
Niraj Shah
David Slater
Neil Wilson
Neil Wilson

Data contributors:
Acromas
Allianz
Aviva
AXA
The Cooperative
Insurance
esure
Groupama
LV
NFU
Provident
RBS Insurance
RSA
Zurich

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Industry Results from Third Party Working Party

- Second Industry Study with much wider scope than First Study
- A significant number of insurers contributed a vast array of information on third party claims (injury and property damage) that made this happen
- In total, over 85% of FSA regulated companies (measured by 2009 premium volumes) contributed, and so the results form as complete a study as probably is possible
- Analysis of the above data carried out by Towers Watson on an anonymised basis
- Data provided as at 31 December 2010
1. Background to Motor Claims Environment

2. Claims Inflation and Development for TPD/Capped TPI
   a. Private Car Comprehensive
   b. Private Car Non Comprehensive
   c. Motorcycle, CV Non-Fleet and Fleet

3. Geographical analysis

4. Excess of Capped TPI results
   a. Data Trends
   b. Benchmark development and Methodology
   c. Projected Ultimates
   d. Analyses of Largest Claims
   e. Adequacy of Case Estimates

5. New Developments

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Comp Exposure up over time: Non-Comp declining strongly

Since 2005
- Comp exposure has increased by 4.2%
- Non-Comp has declined by 63.7%
- Total exposure has reduced by 2.5%
Implied 3.3%pa decrease since 2007 Q3
Comprehensive

Implied 6.2% pa increase since 2008 Q1
Road Usage Data

• There is a broad correlation between road usage and changes in petrol prices – with greater sensitivity to increases than decreases

• Road usage has been dropping since 2007
  • With a more pronounced drop in 2010 of 2.4%
CMCs: growth continues; and turnover is up 50%

Turnover to Nov 2010 increased by 50% to £377m.

Information on counts of authorised CMCs has challenges in terms of allowing for cancelling authorisation - so there are caveats on the following findings given that we have not been able to obtain regional turnover data.

But it would appear that:

- The greatest increases have been in the areas that already had the greatest concentrations of CMCs – specifically Manchester and Liverpool.
- But some other areas have shown significant percentage increases but from a much lower base.
Ministry of Justice Reforms

• Came into effect 30th April 2010
• For every £1 paid in compensation, 43p is paid in legal fees
  – for motor claims under £5000, this figure rises to 88p
• Aims to speed up the process of claims settlement and remove duplication of work and costs on the part of solicitors
• Applies to motor injury claims between £1000 and £10000 occurring in England or Wales.
• Strict timescales for an insurer to admit/deny liability and to make offers of settlement. If timescales not met then the claim falls out of the process
• A reduced, fixed schedule of legal fees sets an expectation that solicitors may have less capacity to pay referral fees to CMCs.

However, Insurers have some concerns
The New MOJ Process (Claims after 30/04/2010)

**Stage 1**
- **Claim notified**
  - Claim £1K - £10k
- **Electronic notification**
  - 10 days
- **Insurer – accept / reject liability**
  - 15 Days
- **Full/partial payment**
  - 10 Days

**Stage 2**
- **Medical report**
  - 15 days
- **Insurer receives / considers MR**
  - 20 days +
  - 15 Days
- **Hearing costs / dispute of costs / counter offer**
  - 20 Days +
  - 5 Days
- **Prepare settlement pack**
  - Insurer checks / responds to settlement pack

**Stage 3**
- **Claimant rep issues proceeding for quantum hearing**
  - 10 Days after end of stage 2
- **If CR not done so insurer can issue for quantum hearing**
  - CR receives settlement pack
- **Court hearing to determine damages**
  - CR receives settlement pack
  - Not later than 15 days after the end of stage 2
- **Judgement received**
  - Insurer pays
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5. New Developments

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Notes on Data and Analysis

1. Claim Numbers Reported in calendar period as % of exposure
2. Private Car Comprehensive development graphs of key trends, TPD and TPI Capped (at £50k in 1999 money, indexed at 7% p.a.), including a refresh of last year’s position based on the latest data for ease of comparison
   - Reported claim frequency
   - Incurred average cost
   - Claim settlement rate (Settled Numbers / Reported Numbers)
   - Paid to incurred ratio
   - Average cost of settled claims
   - Ratio of TPI to TPD claim numbers.
3. Note that “2009 statistic” refers to the position, as given in the current data, of accident years 2009 and prior as at 2009 year end. This will differ in detail from last year’s working party data.
4. Most of the graphs show industry accident year triangulation progressions
5. This facilitates the comparison of experience on a “like-for-like” basis (at least in relation to development)
6. Inflation rates shown are the latest point in the year compared to the previous accident year at the same point in development
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2010 Statistic

- Accident frequencies are down year on year
- Record drop in 2010 of 6%

Reported Claim Frequency (inc nils)

Development month

Inflation Rates

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Unsurprisingly there is a clear relationship between road usage and the number of accidents.
Inflation had eased in 2009 but has picked up in 2010.
2010 Statistic

Private Car Comp - All Distribution Channels - TPD
Average Cost of Settled Claims - per claim (inc nils)

- Settled inflation is broadly consistent with incurred inflation

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2010 Statistic

Private Car Comp - All Distribution Channels - TPD
Claim Settlement Rate (inc nils)

- Settlement rate appears to have increased across all years
- Any distortions due to settlements at nil are not material
2010 Statistic:

Private Car Comp - All Distribution Channels - TPD

Paid to Incurred Ratio

- Although settlement rate has increased it has not led to faster payments
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2010 Statistic

Private Car Comp - All Distribution Channels - TPI Capped
Reported Claim Frequency (inc nils)

- Frequency appears broadly flat but there were fewer accidents
- MOJ reforms introduced 30 April 2010
- Frequency inflation is lagging indications from CRU data however
  - Timing differences
  - CRU include claimant/claim inflation
  - Exposure has increased by 1.4%

Inflation Rates
- 09-10: 1.4%
- 08-09: 11%
- 07-08: 5.4%
- 06-07: 8.3%
- 05-06: 6.2%
There may be fewer accidents but a greater proportion have a bodily injury element.

This inflationary trend is supported by the geographical analysis to be discussed later.
2010 Statistic

Private Car Comp - All Distribution Channels - TPI Capped
Incurred Average Cost - per claim (inc nils)

- Inflation on an incurred basis continues to be low

Inflation Rates
09-10: 1.1%  08-09: 2.2%  07-08: 6%  06-07: -0.3%  05-06: 2.4%
Inflation rates on settled claims were showing extremely higher inflation rates, particularly bearing in mind that 2007 to 2009 have similar settlement rates.

There was evidence of calendar year changes since the end of 2008 which is arguably even evident in 2005.

But how has this picture progressed with 2010 data?
2010 Statistic

- Settled inflation was very high up to 2009 and higher than incurred inflation
- But no or limited inflation in 2010 consistent with incurred inflation

Inflation has now eased off but is still a concern

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2010 Statistic

Private Car Comp - All Distribution Channels - TPI Capped

Claim Settlement Rate (inc nils)

Inflation Rates
09-10: 11.7%  08-09: 3%  07-08: 2.2%  06-07: 1.6%  05-06: 1.3%

• Whilst MOJ only affects 2010 all years show an increase in the latest quarter
• Any distortions due to settlements at nil are not material
2010 Statistic

- Speeding up of payments is faster than speeding up of settlements and is faster than TPD
- 2010 affected by MOJ stage 1 legal fees
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Private Car Comprehensive
Reported claimants per claim

Private Car Comp - All Distribution Channels - TPI Capped
Reported Claimants per Claim (inc nils)

- Persistent year-on-year increases of the order of 5% pa
- But a drop in 2010
- Final quarter of 2010 anomalous due to weather event?

Inflation Rates
09-10: -2.2% 08-09: 4.1% 07-08: 5.3% 06-07: 3.8% 05-06: 7.6%
• Given decreasing accidents and apparently decreasing claimants per claim in 2010, increases in claimant frequency appear to have stalled for the moment
• This data appears to be inconsistent with the CRU data

Reported Claimant Frequency (inc nils)

Development month

Inflation Rates
09-10: -0.7%  08-09: 16.7%  07-08: 10.3%  06-07: 12.9%  05-06: 15.7%
Persistent increases in CRU claimants despite apparent drop in claimant frequency in AY2010

- Number of motor cases registered to the Compensation Recovery Unit has increased in each year
- The number registered in the 2010-11 financial year was 17% higher than in the previous year, the highest recent level of year-on-year growth, but sits in the context of a long term 10% trend
- We note the puzzling difference between the two measures of claimant frequency:
  - CRU data is based on registration so may reflect an element of speeding up
  - Dates are not quite consistent with insurer claimant data and perhaps insurer claimant data is not as robust as other data
  - Potential distortion from Q4 2010 weather
  - Insurer data quality is not as high as for other data in this study

### Number of motor cases registered to the CRU

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of cases</th>
<th>Year-on-year growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004/05</td>
<td>400,000</td>
<td>0%</td>
</tr>
<tr>
<td>2005/06</td>
<td>600,000</td>
<td>5%</td>
</tr>
<tr>
<td>2006/07</td>
<td>800,000</td>
<td>10%</td>
</tr>
<tr>
<td>2007/08</td>
<td>1,000,000</td>
<td>15%</td>
</tr>
<tr>
<td>2008/09</td>
<td>1,200,000</td>
<td>20%</td>
</tr>
<tr>
<td>2009/10</td>
<td>1,400,000</td>
<td>15%</td>
</tr>
<tr>
<td>2010/11</td>
<td>1,600,000</td>
<td>10%</td>
</tr>
</tbody>
</table>

- **Number of motor cases**
  - Y-axis: Number of cases
  - X-axis: Year
  - Line: Year-on-year growth
  - Bars: Number of cases

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Private Car Comp: Fewer accidents but each at greater cost of damage
with more bodily injury, with less inflation per case at the early stages of the MOJ reforms

<table>
<thead>
<tr>
<th>Damage</th>
<th>Injury</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 2010 road usage down and 6% fewer accidents</td>
<td>• Increasing proportions of accidents involve TPI with inflation in TPI/TPD freq of circa 10%</td>
</tr>
<tr>
<td>• But high average cost inflation continues at 7%</td>
<td>• But with fewer accidents in 2010, TPI frequency increases are marginal</td>
</tr>
<tr>
<td>• Insurers are settling more quickly</td>
<td>• MOJ was introduced in 2010 and experience in the 2010 accident year has marked a change with the past: payments have sped up materially as have settlement rates.</td>
</tr>
<tr>
<td></td>
<td>• Whilst there is evidence that case estimate weakness is not as marked as previously for 2010 accidents and that to date average cost inflation is marginal and down from the previous very high levels but</td>
</tr>
<tr>
<td></td>
<td>− This has been flattered by lower numbers of accidents driven by potentially short term suppression of road usage</td>
</tr>
<tr>
<td></td>
<td>− The early stages of the MOJ process give us no knowledge of how the new process will develop at Stage III.</td>
</tr>
<tr>
<td></td>
<td>• Case estimate strength remains a significant issue for 2009 &amp; prior with commensurate risk of under-reserving if undue reliance is place on incurred claims. For overall reserves to be adequate IBNR+IBNeR will need to be a greater proportion of reserves than previously</td>
</tr>
</tbody>
</table>

There are high levels of uncertainty in the ultimate costs of 2010 bodily injury. Positive signs from the early stages of MOJ should be read in the context of increasing numbers of CMCs, claimants per claim and doubt as to the costs of the MOJ process over its full life cycle → risk of underpricing
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2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPD
Reported Claim Frequency (inc nils)

- Accident frequencies are higher than Comp as is inflation
- A drop in 2010 of 4.5% cf Comp (6%)

Inflation Rates
- 09-10: -4.5%
- 08-09: -0.3%
- 07-08: -1.5%
- 06-07: 7%
- 05-06: 7.9%
2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPD
Incurred Average Cost - per claim (inc nils)

- Absolute average cost is higher than Comp (£1400) but inflation is roughly half that of Comp
2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPD
Average Cost of Settled Claims - per claim (inc nils)

- Incurred experience corroborated by average settled cost

Inflation Rates
- 2009: 9.9%
- 2008: 10.7%
- 2007: 6.1%
- 2006: 3.7%
- 2005: 3.2%
2010 Statistic

*Similarly to Comp, settlement rates have appeared to have increased across the years*

*As with Comp, settlements at nil are not material*
2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPD

Paid to Incurred Ratio

- Similar to Comp, the settlement rate has not led to faster payments

Inflation Rates
09-10: -2.1%  08-09: -0.9%  07-08: -0.1%  06-07: 0.7%  05-06: -0.1%
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- Claim frequency is double that of Comp
- Inflation was zero between 2009-2010
2010 Statistic

Private Car Non-Comp - All Distribution Channels
Ratio of TPI to TPD Reported Claim Numbers (inc nils)

- Overall ratio significantly higher than Comp
- Inflation rates lower than Comp but remain material

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2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPI Capped

Incurred Average Cost - per claim (inc nils)

• Broadly consistent with Comp

Inflation Rates

09-10: 3.8%  08-09: 1.2%  07-08: 4%  06-07: 2.1%  05-06: -5.4%
• Inflation inconsistent with Comp particularly in 2010 where there is no easing off
• Average settled inflation in 2010 is 16%
2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPI Capped

Claim Settlement Rate (inc nils)

- Strong speeding up to 2008 and stable since then unlike Comp which saw material speeding up in 2010 calendar period
- No material distortion due to nils

Inflation Rates
09-10: 3%  08-09: 2.2%  07-08: 4.2%  06-07: 2.1%  05-06: 1.2%
2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPI Capped

Paid to Incurred Ratio

- This inflation is consistent with Comp unlike average settled claim inflation which is much stronger for Non-Comp than Comp.

Inflation Rates
09-10: 15.5%  08-09: 5.1%  07-08: 5.1%  06-07: -0.9%  05-06: 8.2%
Private Car Non-Comp: Declining volumes. All costs higher than Comp as is TPI severity, but other inflation rates are lower than Comp

- Non-Comp business volumes continue to decline
- with more adverse claims experience than Comp
  - Higher TPD, TPI frequencies
  - TPI/TPD above 30% cf 25% for Comp
  - Higher TPD severities
  - Higher TPI severity inflation
- But with other inflationary trends not as marked as Comp
- Whereas Comp shows evidence of relative strengthening of case estimates in 2010 accident year, there is evidence of relative weakening for Non-Comp in 2010 with average settled inflation at 16% (average incurred inflation at 4%) with only marginal speeding up of settlements (cf strong speeding up for Comp)

Evidence of weak case estimates → risk of under-reserving

if undue reliance is place on incurred claims. For overall reserves to be adequate IBNR+IBNeR will need to be a greater proportion of reserves than previously
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Motorcycle exposure

Exposure increased from 2005-2008 but has then decreased by about 4% per annum
Motorcycle

Motorcycle - All Distribution Channels - TPD
Reported Claim Frequency (inc nils)

- Frequency generally down year-on-year
- Overall, market has seen a shift in mix towards more powerful bikes since 2000
- Poorer risks priced out by recent rate increases
- Lower numbers of cars on the road could be starting to have an effect
- Little cost inflation on incurred, settleds even show deflation in 2010, although this is consistent with slowing settlement rates

Inflation Rates
09-10: -7.7%  08-09: 1.8%  07-08: -18.5%  06-07: 7.2%  05-06: -7.8%

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Motorcycle

Motorcycle - All Distribution Channels - TPD

Incurred Average Cost - per claim (inc nils)

• Average costs increased between 2005 and 2007 but has now reverted to 2005 levels

Inflation Rates
09-10: 0.3%  08-09: -0.2%  07-08: -13.9%  06-07: 2.9%  05-06: 15.3%

NB: Source data treated for data errors
Motorcycle

The development is much slower than Private Car with a material gap with the incurred average costs.

2006 increased over 2005 levels which is consistent with the incurreds.

However, inflation continues beyond 2007 until a decrease in costs in 2010.

Inflation Rates

- 09-10: -12.5%
- 08-09: 4.2%
- 07-08: 5.1%
- 06-07: -0.1%
- 05-06: 11.6%
Motorcycle

Motorcycle - All Distribution Channels - TPD
Settlement Rate (inc nils)

- There has been little change in settlement rates since 2005

Inflation Rates
- 09-10: -0.2%  08-09: 1.1%  07-08: 0.8%  06-07: 0.1%  05-06: 0.2%

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Motorcycle

Motorcycle - All Distribution Channels - TPD
Paid to Incurred Ratio

- The slow down in paid to incurred ratio is indicative of either a slow down in payments or a strengthening of case reserves
- We note that settlement rates have been constant and that incurred average costs is consistent with 2009, but average settled costs have reduced
- These observations are consistent with either a relative strengthening of case estimates or a slowing down of partial payments

Inflation Rates
09-10: -5.3%  08-09: -1.1%  07-08: 0.8%  06-07: 0.3%  05-06: 0.6%

NB: Source data treated for data errors

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2008 aside, strong increases have persisted with a moderate increase between 2009 and 2010
Motorcycle

Motorcycle - All Distribution Channels
Ratio of TPI to TPD Reported Claim Numbers (inc nils)

- Overall pattern similar to private car trends, albeit at a lower absolute level

Inflation Rates
09-10: 8.7% 08-09: 2.8% 07-08: 7.4% 06-07: 0.9% 05-06: 14.1%
Motorcycle

Motorcycle - All Distribution Channels - TPI Capped

Average Cost of Settled Claims - per claim (inc nils)

- Unlike Private Car, this shows moderate inflation with the exception of 2006.
Motorcycle

Motorcycle - All Distribution Channels - TPI Capped
Settlement Rate (inc nils)

- Settlement rate slowing (c.f. speeding up for private car)

Inflation Rates
09-10: 8.3%  08-09: -2.8%  07-08: -3.2%  06-07: -1.4%  05-06: -1.8%
Motorcycle

Motorcycle - All Distribution Channels - TPI Capped

Paid to Incurred Ratio

- The increase in 2010 is consistent with the earlier legal payment under Stage 1 of the MOJ process

- This trend is steeper than the increase seen in TPD

Inflation Rates

09-10: 64.7%  08-09: -14.4%  07-08: -1.7%  06-07: 7.9%  05-06: 10.2%
Non Fleet Commercial Vehicles (CV) and Fleet - Data Quality

- The Working Party has decided not to release charts where prior year trends have changed significantly from last year’s analysis where this has been due to contributors providing data which Towers Watson (or the contributors) do not believe to be accurate. Such decisions have typically followed discussions between Towers Watson and individual data contributors on their data. In such cases we have sometimes been able to create a chart which excludes the contributor in question.
- Very few contributors have been able to provide data on settlement rate this year.
- Generally, data availability and quality for CV & Fleet is significantly inferior to private car business, which makes it very challenging to produce results for prior years which are consistent with those presented last year.
Following reductions in claim frequencies from 2007 to 2009, 2010 shows a significant increase.
Increase in frequency has been met with a slowdown in payments, potentially arising from a slowdown in operations.
CV - All Distribution Channels - TPI Capped
Reported Claim Frequency (inc nils)

• TPD and TPI have equally high increases in frequency in 2010

Inflation Rates
09-10: 21.9%  08-09: 6.5%  07-08: 2.4%  06-07: 7.5%  05-06: 2%
CV

CV - All Distribution Channels
Ratio of TPI to TPD Reported Claim Numbers (inc nils)

- Stability of the TPI to TPD ratio in 09/10 may be due to timing issues with proportionately more CV accidents happening later in the year
- As such the subsequent development of 2010 could resume previous inflationary trends

Inflation Rates
09-10: -1.7%  08-09: 13.9%  07-08: 9.3%  06-07: 2.4%  05-06: 1.4%
• Some evidence of inflation in earlier years but without supporting diagnostics to differentiate between payments to date and case estimates

• There are similar trends to Private Car Comp, with a speeding up of payments in 2010 due to MOJ
Fleet

Fleet - All Distribution Channels - TPD
Incurred Average Cost - per claim (inc nils)

- Inflation on an incurred basis continues to be low, unlike Private Car Comp

Inflation Rates
- 09-10: 1.7%
- 08-09: -5.4%
- 07-08: 6.2%
- 06-07: 1.2%
- 05-06: 12.9%
Fleet - All Distribution Channels - TPD

Paid to Incurred Ratio

- Paid to incurred ratio has remained relatively stable

Inflation Rates

09-10: 1.6%  08-09: 1.2%  07-08: -1.7%  06-07: 1.2%  05-06: -0.7%
Fleet

Fleet - All Distribution Channels
Ratio of TPI to TPD Reported Claim Numbers (inc nils)

- Lower inflation in ratio year-on-year as well as absolute levels compared to Private Car Comp
- Also different trends to CV

Inflation Rates
09-10: 7.3% 08-09: 5% 07-08: 8.8% 06-07: 0.6% 05-06: 5.2%
Fleet

Fleet - All Distribution Channels - TPI Capped
Paid to Incurred Ratio

- Like Private Car Comp, these ratios have strengthened
- However, the strengthening in 2010, post MOJ, would not appear to be as strong as the effects in previous accident years

Inflation Rates
09-10: 6.5%  08-09: 8.9%  07-08: -2.7%  06-07: 8.6%  05-06: -4.9%

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Appendices
Private Car Comprehensive Experience by TV Region

- Latest reported claim numbers and incurred claim amounts were provided split by region
- These data were aggregated and summaries were produced which show how key statistics vary by location in the UK
- These statistics are based on latest positions (i.e., on claim information excluding any estimate for IBNR or IBNER claims or amounts)
- The analysis was restricted to Private Car Comprehensive due to insufficient quantities of data in other lines of business
- Relative trends generally reinforce the trends identified last year.
USA’s most litigious States

- Washington 33.4%
- Oregon 35.1%
- South Carolina 35.0%
- Rhode Island 39.2%
- Louisiana 39.3%
- Nevada 40.3%

TPI / TPD numbers by TV region (Private Car Comprehensive) - NW higher than worst in US

- Continued strong increases in London + SE and Kent + Essex
- Increase in London + SE since 2006 is twice the average
- Levelling off in NW, NE and Yorks. Linked to CMC saturation?

*US data from ISS's Private Passenger Fast Track Data reports
TPI / TPD numbers by TV region (Private Car Comprehensive) – NE Scotland < 1/3rd NW England

- Scottish differential increased in 2010.
  Different legal environment & possible weather impact?
- Increases in rural regions generally less than average

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Change in TPI / TPD Numbers (Private Car Comprehensive)

- London and the South East (excl Kent and Essex) is showing the strongest rate of increase
- The North West and Yorkshire show the weakest growth of these regions despite their high absolute level
Change in TPI / TPD Numbers (Private Car Comprehensive)

- Of the more rural regions, “Scotland”* is actually showing the strongest increase, although Border and North East Scotland are showing no increase
- Possible distortion in 2010 owing to IBNR

* “Scotland” refers to the part of Scotland excluding North East Scotland and Border
Third Party Injury average cost by TV region (Private Car Comprehensive)

- London severity in line with average, NW only slightly below.
- Rural areas display higher severities, perhaps owing to a higher proportion of large claims.
- “Scotland” and NE England have much lower severity.
- Uncapped data.
Third Party Damage average cost by TV region (Private Car Comprehensive)

- Highest TPD severities in London and NW
- Regions with high TPI frequency and low TPI severity display relatively high TPD severity
- 2010 Working Party showed a correlation between high TPI frequency and CMC activity
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Appendices
Excess of Capped TPI Analysis
Introduction

- Analysis was performed for Private Car Comprehensive only
- The threshold for the relevant accident years are based on £100k in 2010 money indexed at 7%
- The thresholds are slightly lower than those used in the capped claims analysis shown in the Capped Bodily Injury results (thresholds were equal to £50k in 1999 money indexed at 7% per annum, c.f. £47.5k in 1999 money)
- This was done to maximise consistency with the IUA Bodily Injury Studies*
- The following charts show key features of the development of the claims
- Some prior years have been omitted from some of the charts in order to focus on the areas of greatest interest
- The horizontal axis shows the number of development months since the start of each accident year.

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>50,835</td>
</tr>
<tr>
<td>2001</td>
<td>54,393</td>
</tr>
<tr>
<td>2002</td>
<td>58,201</td>
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<td>2003</td>
<td>62,275</td>
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<tr>
<td>2004</td>
<td>66,634</td>
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<tr>
<td>2005</td>
<td>71,299</td>
</tr>
<tr>
<td>2006</td>
<td>76,290</td>
</tr>
<tr>
<td>2007</td>
<td>81,630</td>
</tr>
<tr>
<td>2008</td>
<td>87,344</td>
</tr>
<tr>
<td>2009</td>
<td>93,458</td>
</tr>
<tr>
<td>2010</td>
<td>100,000</td>
</tr>
</tbody>
</table>

* The Fourth UK Bodily Injury Awards Study October 2007
### Excess of Capped TPI Analysis

**Data Summary**

<table>
<thead>
<tr>
<th>Accident Period</th>
<th>Earned Exposure (millions of vehicle years)</th>
<th>Percentage of market</th>
<th>Reported Excess of Capped Claim Numbers</th>
<th>Reported Excess of Capped Claim Frequency (claims per million units of exposure)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>10.7</td>
<td>71%</td>
<td>1,295</td>
<td>120.7</td>
</tr>
<tr>
<td>2003</td>
<td>12.2</td>
<td>74%</td>
<td>1,345</td>
<td>110.0</td>
</tr>
<tr>
<td>2004</td>
<td>12.7</td>
<td>73%</td>
<td>1,250</td>
<td>98.6</td>
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<td>2005</td>
<td>13.1</td>
<td>75%</td>
<td>1,355</td>
<td>103.2</td>
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<td>2006</td>
<td>13.1</td>
<td>75%</td>
<td>1,350</td>
<td>103.0</td>
</tr>
<tr>
<td>2007</td>
<td>12.5</td>
<td>72%</td>
<td>1,388</td>
<td>111.2</td>
</tr>
<tr>
<td>2008</td>
<td>12.3</td>
<td>70%</td>
<td>1,210</td>
<td>98.6</td>
</tr>
<tr>
<td>2009</td>
<td>12.8</td>
<td>70%</td>
<td>1,169</td>
<td>91.5</td>
</tr>
<tr>
<td>2010</td>
<td>13.0</td>
<td>72%</td>
<td>575</td>
<td>44.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>112.3</strong></td>
<td><strong>73%</strong></td>
<td><strong>10,937</strong></td>
<td></td>
</tr>
</tbody>
</table>

- Data contains over 110 million earned vehicle years, each accident year representing over 70% of the FSA-regulated market.
- In total, there are around 11,000 claims.
Large claims frequency vs. petrol prices

Increases in petrol prices lead to decreases in large bodily injury claims and vice versa

Petrol price data from the Automobile Association
http://www.theaa.com/motoring_advice/running_costs/archive.html
Excess of Capped TPI Analysis
Data Trends

Excess of Capped Claim Frequency

• Drop in frequency since 2007; 2010 is down significantly

Inflation Rates
09-10: -21.6%  08-09: -0.3%  07-08: -7.3%  06-07: 6%  05-06: -1%
Excess of Capped TPI Analysis
Data Trends

Ratio of Excess BI to TPD reported numbers

With the exception of 2010, the ratios have been steady over time; drop in 2010 could be due to:
- Late reporting of large claims
- Lower levels of serious TPI due to low driving speeds in winter weather
- Fewer young drivers due to increased cost of motoring

Inflation Rates
- 09-10: -16.1%
- 08-09: 0.7%
- 07-08: -2.6%
- 06-07: 1%
- 05-06: -5.1%
Excess of Capped TPI Analysis
Data Trends

Excess of Capped Settlement Rate

- The settlement rate at earlier developments is slowing down but is speeding up in the tail

Inflation Rates

08-09: -3.7%  07-08: -3.1%  06-07: -7.5%  05-06: 6.8%  04-05: 2.2%  03-04: 4.1%
• Very few settlements in most recent years make it hard to establish a clear pattern other than a general inflationary trend.
Excess of Capped Incurred Average Cost

- Clear inflationary trend which is arguably twice as strong as that seen for settled average costs

- Whilst this may reflect genuine inflation, it is possible that case estimate strength has increased at least in part due to some insurers strengthening for PPOs (see slide 93)
Excess of Capped Average Cost of Open Claims

- As would be expected, inflation on the open claims is the strongest of all measures (roughly three times the rate of settled inflation).
- This is consistent with the increased settlement rate for the oldest years, and means that there are cohorts dominated by the most severe claims.
- The earlier point on PPOs will also apply.

Inflation Rates

- 09-10: 1.9%
- 08-09: 17.3%
- 07-08: 11.7%
- 06-07: 1%
- 05-06: 23.4%
- 04-05: -10.4%
- 03-04: 42.8%

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Excess of Capped TPI Analysis
Projected Ultimate Claims

- Claim numbers and claim amounts were projected in a series of (unindexed) layers:
  - £100k to £250k
  - £250k to £500k
  - £500k to £1m
  - £1m to £2m
  - £2m to 5m
  - £5m+
- A seventh layer between £100k unindexed and £100k indexed was used to calculate results in excess of £100k indexed. Results for this layer are not included in analysis of layers.
Excess of Capped TPI Analysis
Projected Ultimate Claims

• The definition of the layers is such that a claim of £1m contributes £150k to the lowest layer, £250k to next layer and £500k to the next layer.

• This approach allowed the estimation of claim frequencies, average costs and burning costs within layers to be estimated for each accident year.

• Note that although the nominal £100k-250k frequency is increasing, the frequency of claims in excess of the indexed threshold has been falling. The increase in frequency seen on an unindexed basis is due to underlying natural inflation.
Excess of Capped TPI Analysis
Projected Ultimate Claims – Uncertainty

- Rigorously straightforward mechanistic projection methodology
- No tail beyond 11 years as no data
- An x% tail factor would increase ultimates for all accident years by x% but with the same trend across years.
- The Ogden consultation and version 7 of the Ogden tables are most likely not reflected in insurers’ data:
  - Any increase in longevity assumptions or drop in the discount rate would lead to additional inflation
  - Such increases may however be mitigated at least partially by PPOs being less attractive to insurers.
Excess of Capped TPI Analysis
Projected Ultimate Claims - Uncertainty

• The **PPO** Working Party has found range of approaches to PPO case reserves. Quoted inflation rates may be overstated excluding PPOs but understated including PPOs

• **2010 Q4 had poor weather** in December, bringing potential reporting delays & lower impact speeds and less TPI

• The most recent accident years are immature in their development and as such are subject to material uncertainty

• Due to lack of development data, Paid triangles were not used. As such projections are subject to uncertainty caused by changes in case reserve strength over time
## Benchmark Development - Incurred

### Private Car Comprehensive - Excess BI Incurred Claims Development Pattern

<table>
<thead>
<tr>
<th>Start Month</th>
<th>Development Month 1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.1%</td>
<td>0.8%</td>
<td>3.0%</td>
<td>4.9%</td>
<td>7.9%</td>
<td>12.3%</td>
<td>14.9%</td>
<td>18.9%</td>
<td>23.4%</td>
<td>29.8%</td>
<td>36.2%</td>
<td>44.0%</td>
</tr>
<tr>
<td>13</td>
<td>51.8%</td>
<td>58.1%</td>
<td>64.5%</td>
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<td>71.6%</td>
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<td>83.5%</td>
<td>85.5%</td>
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<td>91.5%</td>
<td>91.5%</td>
<td>92.3%</td>
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<td>94.9%</td>
<td>95.3%</td>
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<tr>
<td>37</td>
<td>95.8%</td>
<td>96.3%</td>
<td>96.9%</td>
<td>97.5%</td>
<td>98.0%</td>
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<td>99.9%</td>
<td>100.2%</td>
<td>100.4%</td>
<td>100.6%</td>
</tr>
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<td>100.5%</td>
<td>100.3%</td>
<td>100.1%</td>
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<td>99.6%</td>
<td>99.3%</td>
<td>99.0%</td>
<td>98.7%</td>
<td>98.4%</td>
<td>98.0%</td>
</tr>
<tr>
<td>61</td>
<td>97.9%</td>
<td>97.8%</td>
<td>97.7%</td>
<td>97.6%</td>
<td>97.5%</td>
<td>97.4%</td>
<td>97.3%</td>
<td>97.2%</td>
<td>97.1%</td>
<td>97.1%</td>
<td>97.1%</td>
<td>97.0%</td>
</tr>
<tr>
<td>73</td>
<td>97.0%</td>
<td>97.0%</td>
<td>97.0%</td>
<td>97.0%</td>
<td>97.1%</td>
<td>97.1%</td>
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<td>97.3%</td>
<td>97.3%</td>
<td>97.3%</td>
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<tr>
<td>85</td>
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<td>97.5%</td>
<td>97.5%</td>
<td>97.6%</td>
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<td>97.8%</td>
<td>97.9%</td>
<td>98.0%</td>
<td>98.1%</td>
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<td>98.6%</td>
<td>98.8%</td>
<td>99.0%</td>
<td>99.1%</td>
<td>99.2%</td>
<td>99.4%</td>
<td>99.4%</td>
<td>99.5%</td>
<td>99.5%</td>
<td>99.5%</td>
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<tr>
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<td>99.5%</td>
<td>99.5%</td>
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<td>99.5%</td>
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</tr>
<tr>
<td>121</td>
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<td>99.6%</td>
<td>99.6%</td>
<td>99.7%</td>
<td>99.7%</td>
<td>99.8%</td>
<td>99.8%</td>
<td>99.8%</td>
<td>99.9%</td>
<td>99.9%</td>
<td>99.9%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

- The table above shows the selected incurred development pattern for claims in excess of £100k (indexed)
- The table shows the cumulative development within the first year within the first row, the second year within the second row, and so on…

Note important caveats on these development patterns are set out earlier in this section.
The table above shows the selected reported numbers development pattern for claims in excess of £100k (indexed)
The table shows the cumulative development within the first year within the first row, the second year within the second row, and so on...

Note important caveats on these development patterns are set out earlier in this section
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### Excess of Capped TPI Analysis
Projected Ultimate Claims

#### Projected Ultimate Excess of Capped TPI Results for Private Car Comprehensive

<table>
<thead>
<tr>
<th>Accident Period</th>
<th>Earned Exposure (millions of vehicle years)</th>
<th>Ultimate Excess of Capped Claim Frequency (claims per million vehicle years)</th>
<th>Ultimate Excess of Capped Claim Severity (£)</th>
<th>Ultimate Excess of Capped Burning Cost (£)</th>
<th>Year-on-Year Change in Frequency (% pa)</th>
<th>Year-on-Year Change in Severity (% pa)</th>
<th>Year-on-Year Change in Burning Cost (% pa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>10.73</td>
<td>121</td>
<td>264,174</td>
<td>31.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>12.23</td>
<td>110</td>
<td>239,715</td>
<td>26.3</td>
<td>-9.3%</td>
<td>-9.3%</td>
<td>-17.7%</td>
</tr>
<tr>
<td>2004</td>
<td>12.68</td>
<td>98</td>
<td>280,907</td>
<td>27.5</td>
<td>-10.5%</td>
<td>17.2%</td>
<td>4.8%</td>
</tr>
<tr>
<td>2005</td>
<td>13.13</td>
<td>101</td>
<td>254,733</td>
<td>25.8</td>
<td>3.5%</td>
<td>-9.3%</td>
<td>-6.1%</td>
</tr>
<tr>
<td>2006</td>
<td>13.11</td>
<td>100</td>
<td>305,617</td>
<td>30.5</td>
<td>-1.6%</td>
<td>20.0%</td>
<td>18.0%</td>
</tr>
<tr>
<td>2007</td>
<td>12.48</td>
<td>106</td>
<td>303,334</td>
<td>32.2</td>
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<td>-0.7%</td>
<td>5.6%</td>
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<tr>
<td>2008</td>
<td>12.27</td>
<td>102</td>
<td>342,928</td>
<td>34.9</td>
<td>-4.2%</td>
<td>13.1%</td>
<td>8.4%</td>
</tr>
<tr>
<td>2009</td>
<td>12.77</td>
<td>106</td>
<td>395,167</td>
<td>41.9</td>
<td>4.2%</td>
<td>15.2%</td>
<td><strong>20.1%</strong></td>
</tr>
<tr>
<td>2010</td>
<td>12.96</td>
<td>99</td>
<td>378,975</td>
<td>37.5</td>
<td>-6.6%</td>
<td>-4.1%</td>
<td>-10.5%</td>
</tr>
</tbody>
</table>

- 2009 was a bad year with burning cost inflation of 20%. More typical inflation might be 5-10%. Improvements seen in 2010 may be a return to normal levels of claims experience after 2009 but may be distorted due to winter weather.

- Burning cost trends are driven by severity rather than frequency.
Excess of Capped TPI Analysis
Projected Ultimate Claims

Excess TPI Claim Numbers - Percentage of Ultimate

- Development pattern consistent with the exception of 2010, which may have been distorted due to winter weather
- In later development there is redundancy as some claims are settled beneath the capping threshold
Excess of Capped TPI Analysis
Projected Ultimate Claims

Excess TPI Incurred Claims - Percentage of Ultimate

- Development pattern consistent at an aggregate level
- Stability appears to be reached after 48 development months when examined in aggregate
- There is slower development in higher layers
### Private Car Comprehensive Excess Results in Layer

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>£100k - 250k</th>
<th>£250k - 500k</th>
<th>£500k - 1m</th>
<th>£1m - 2m</th>
<th>£2m - 5m</th>
<th>&gt; £5m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>68.0</td>
<td>27.7</td>
<td>14.1</td>
<td>6.9</td>
<td>3.0</td>
<td>0.8</td>
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<td>2003</td>
<td>67.3</td>
<td>27.4</td>
<td>13.0</td>
<td>5.7</td>
<td>2.3</td>
<td>0.7</td>
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<tr>
<td>2004</td>
<td>65.4</td>
<td>26.6</td>
<td>12.7</td>
<td>5.8</td>
<td>3.1</td>
<td>0.7</td>
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<td>70.9</td>
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<td>6.0</td>
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<td>0.6</td>
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<td>14.5</td>
<td>6.8</td>
<td>3.7</td>
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<td>2007</td>
<td>83.5</td>
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<td>16.7</td>
<td>6.4</td>
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<td>1.0</td>
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<td>2008</td>
<td>82.5</td>
<td>32.4</td>
<td>16.6</td>
<td>6.9</td>
<td>3.9</td>
<td>1.6</td>
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<tr>
<td>2009</td>
<td>90.7</td>
<td>35.0</td>
<td>19.4</td>
<td>9.7</td>
<td>5.8</td>
<td>2.2</td>
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<tr>
<td>2010</td>
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</table>

### Average Cost (£000s)

<table>
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<tr>
<th>Accident Year</th>
<th>£100k - 250k</th>
<th>£250k - 500k</th>
<th>£500k - 1m</th>
<th>£1m - 2m</th>
<th>£2m - 5m</th>
<th>&gt; £5m</th>
</tr>
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<tr>
<td>2002</td>
<td>93</td>
<td>171</td>
<td>343</td>
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<td>325</td>
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### Burning Cost (£)

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### Excess of Capped TPI Analysis
#### Projected Ultimate Claims

**Private Car Comprehensive Excess Results in Layer**

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<tr>
<th>Accident Year</th>
<th>£100k - 250k</th>
<th>£250k - 500k</th>
<th>£500k - 1m</th>
<th>£1m - 2m</th>
<th>£2m - 5m</th>
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<tr>
<td><strong>Proportion of claim numbers in layer above</strong></td>
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</tr>
<tr>
<td>2002</td>
<td>41%</td>
<td>51%</td>
<td>49%</td>
<td>43%</td>
<td>28%</td>
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<tr>
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<td>48%</td>
<td>44%</td>
<td>41%</td>
<td>32%</td>
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<tr>
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<td>48%</td>
<td>46%</td>
<td>52%</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>37%</td>
<td>50%</td>
<td>45%</td>
<td>47%</td>
<td>21%</td>
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</tr>
<tr>
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<td>51%</td>
<td>47%</td>
<td>54%</td>
<td>27%</td>
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</tr>
<tr>
<td>2007</td>
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<td>51%</td>
<td>38%</td>
<td>49%</td>
<td>32%</td>
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<tr>
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<td>42%</td>
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<td>55%</td>
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<td>59%</td>
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<td>41%</td>
<td>60%</td>
<td>58%</td>
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<tr>
<td><strong>Proportion of xs 100k numbers</strong></td>
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</tr>
<tr>
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<td>10%</td>
<td>4%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2003</td>
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<td>19%</td>
<td>8%</td>
<td>3%</td>
<td>1.1%</td>
</tr>
<tr>
<td>2004</td>
<td>100%</td>
<td>41%</td>
<td>19%</td>
<td>9%</td>
<td>5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>2005</td>
<td>100%</td>
<td>37%</td>
<td>19%</td>
<td>8%</td>
<td>4%</td>
<td>0.8%</td>
</tr>
<tr>
<td>2006</td>
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<td>39%</td>
<td>20%</td>
<td>10%</td>
<td>5%</td>
<td>1.4%</td>
</tr>
<tr>
<td>2007</td>
<td>100%</td>
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<td>20%</td>
<td>8%</td>
<td>4%</td>
<td>1.2%</td>
</tr>
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<td>39%</td>
<td>20%</td>
<td>8%</td>
<td>5%</td>
<td>1.9%</td>
</tr>
<tr>
<td>2009</td>
<td>100%</td>
<td>39%</td>
<td>21%</td>
<td>11%</td>
<td>6%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2010</td>
<td>100%</td>
<td>39%</td>
<td>20%</td>
<td>8%</td>
<td>5%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>
Excess of Capped TPI Analysis
Projected Ultimate Claims

Proportion of Ultimate Claim Frequencies in Layer

On a proportional basis:
- No change for layers beneath £1m
- £1-2m layer reducing
- Higher frequencies for >£5m and >£2m
Excess of Capped TPI Analysis
Projected Ultimate Claims

- An increasing proportion of the total cost now falls into the > £2m layers
- Claims > £1m now represent almost half of the cost of excess claims
In parallel to these projections, a scenario was considered that took into account the weather event of December 2010. Under the hypothesis that December 2010 values were backlogged due to processing delays, the input data to our modelling was adjusted. The results of the scenario are given in the table below. Under this scenario the projected burning cost for accident year 2010 increases from £37.5 to £40.2.

<table>
<thead>
<tr>
<th>Frequency (claims per million vehicle years)</th>
<th>108</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severity (£)</td>
<td>371,881</td>
</tr>
<tr>
<td>Burning Cost (£)</td>
<td>40.2</td>
</tr>
</tbody>
</table>
1. Background to Motor Claims Environment
2. Claims Inflation and Development for TPD/Capped TPI
   a. Private Car Comprehensive
   b. Private Car Non Comprehensive
   c. Motorcycle, CV Non-Fleet and Fleet
3. Geographical analysis
4. Excess of Capped TPI results
   a. Data Trends
   b. Benchmark development and Methodology
   c. Projected Ultimates
   d. Analyses of Largest Claims
   e. Adequacy of Case Estimates
5. New Developments

Appendices
Excess of Capped TPI Analysis
Analysis of Largest Claims

- Average incurred claim cost triangles were constructed for the following subsets of data:
  - Largest 2000 claims for each accident year
  - Largest 1000 claims for each accident year
  - Largest 200 claims for each accident year
  - Largest 200 claims for each accident year, excluding the largest 20

- By taking the largest n claims in each year, the intention is to consider injuries of similar severity to get a measure of inflation for large claims that is undistorted by an increasing frequency of small or mid-range claims or the indexation of thresholds.

- We show the annualised average increases of claim costs over several periods for each of the above subsets
## Excess of Capped TPI Analysis

### Analysis of Largest Claims

Claim severity triangle for Private Car Comprehensive (largest 2,000 claims per accident year)

<table>
<thead>
<tr>
<th>Loss Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
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<td>2003</td>
<td>134</td>
<td>172</td>
<td>189</td>
<td>218</td>
<td>222</td>
<td>211</td>
<td>213</td>
<td>216</td>
</tr>
<tr>
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<td>187</td>
<td>213</td>
<td>226</td>
<td>225</td>
<td>230</td>
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<td>232</td>
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<tr>
<td>2006</td>
<td>134</td>
<td>200</td>
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<tr>
<td>2008</td>
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<tr>
<td>2009</td>
<td>203</td>
<td>320</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2010</td>
<td>171</td>
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</table>

### Annualised Escalation Rates

#### 3 Year Periods

<table>
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<th>Period</th>
<th>03-06</th>
<th>04-07</th>
<th>05-08</th>
<th>06-09</th>
<th>07-10</th>
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</thead>
<tbody>
<tr>
<td>2003-2006</td>
<td>0%</td>
<td>5%</td>
<td>8%</td>
<td>6%</td>
<td>7%</td>
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<tr>
<td>2004-2007</td>
<td>-1%</td>
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<td>7%</td>
<td>7%</td>
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<tr>
<td>2005-2008</td>
<td>12%</td>
<td>11%</td>
<td>11%</td>
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</tr>
<tr>
<td>2006-2009</td>
<td>15%</td>
<td>17%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007-2010</td>
<td>9%</td>
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</table>

#### 5 Year Periods

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<th>04-09</th>
<th>05-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-2008</td>
<td>5%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>2004-2009</td>
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<td>11%</td>
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</tr>
<tr>
<td>2005-2010</td>
<td>7%</td>
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</table>
Excess of Capped TPI Analysis
Analysis of Largest Claims

Claim severity triangle for Private Car Comprehensive (largest 1,000 claims per accident year)

<table>
<thead>
<tr>
<th>Loss Year</th>
<th>Development Year (Figures in £000s)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>2003</td>
<td>228</td>
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<tr>
<td>2004</td>
<td>229</td>
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<tr>
<td>2005</td>
<td>201</td>
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<tr>
<td>2006</td>
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<td>305</td>
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<tr>
<td>2009</td>
<td>358</td>
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<tr>
<td>2010</td>
<td>304</td>
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Annualised Escalation Rates

3 Year Periods
- 2003 - 2006: 0% 5% 8% 6% 7%
- 2004 - 2007: -1% 7% 8% 7%
- 2005 - 2008: 15% 13% 13%
- 2006 - 2009: 16% 19%
- 2007 - 2010: 11%

5 Year Periods
- 2003 - 2008: 6% 9% 9%
- 2004 - 2009: 9% 12%
- 2005 - 2010: 9%
Excess of Capped TPI Analysis
Analysis of Largest Claims

Claim severity triangle for Private Car Comprehensive (largest 200 claims per accident year)

<table>
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<th>Loss Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<th>6</th>
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<th>8</th>
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</tr>
</tbody>
</table>

Annualised Escalation Rates

- Escalation rates for the top 200 claims are generally higher than for the top 1000/2000 claims (where they were 7-10% and 7-13% respectively)
- Costs have increased particularly in 2008-10 and inflation rates have touched 20% in recent years
- The increasing prevalence of PPOs may be one of the drivers for this increase
Excess of Capped TPI Analysis
Analysis of Largest Claims

Claim severity triangle for Private Car Comprehensive (largest 200 claims, excluding largest 20 claims, per accident year)

<table>
<thead>
<tr>
<th>Loss Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
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<td>2005</td>
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<td>2010</td>
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Annualised Escalation Rates

<table>
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</thead>
<tbody>
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<td></td>
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<td>-6%</td>
<td>15%</td>
<td>19%</td>
<td>9%</td>
</tr>
<tr>
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<td>12%</td>
<td>14%</td>
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Excess of Capped TPI Analysis
Analysis of Largest Claims

- Information on the largest 25 claims (by latest incurred value) for each accident year is also presented
- Latest incurred costs for the most recent years are likely to be under-developed
- In addition to listing the claims below, they are grouped into bands of £1m in size so that the distributions of the largest claims can be assessed by accident year.
Excess of Capped TPI Analysis
Analysis of Largest Claims

Private Car Comprehensive - Distribution of largest 25 claims by latest incurred

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>£2m - £3m</th>
<th>£3m - £4m</th>
<th>£4m - £5m</th>
<th>£5m - £6m</th>
<th>£6m - £7m</th>
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<td>-</td>
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<td>2</td>
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• In 2008 the 25th largest claim exceeds £3m for the first time.
• In 2009 the 25th largest claim is over £4m
• In 2010, 9 of the top 25 claims are currently estimated at below £3m, which is very out of line with 2008 and 2009, but it may be that estimates for 2010 are very under-developed and will grow over time
• The largest claim in each year has been over £8m, with four years including claims costing more than £10m
### Excess of Capped TPI Analysis

#### Analysis of Largest Claims

Private Car Comprehensive - Latest incurred value (£000s) of largest 25 claims per accident year (settled claims in red)

<table>
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<tr>
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   c. Motorcycle, CV Non-Fleet and Fleet
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4. Excess of Capped TPI results
   a. Data Trends
   b. Benchmark development and Methodology
   c. Projected Ultimates
   d. Analyses of Largest Claims
   e. Adequacy of Case Estimates
5. New Developments

Appendices
Excess of Capped TPI Analysis
Adequacy of Case Estimates

• We extracted claims from the data which had been reported before the end of development year one, and tracked their further incurred development relative to the year one position.

• This removes the effect of IBNR claims, allowing the impact of IBNER to the deterioration of claims experience to be separately assessed.

• An element of IBNER may be the identification of additional claimants on claims already reported.

• The calculation is then repeated using development year two to obtain a view of incurred development relative to the year two position.
Excess of Capped TPI Analysis
Adequacy of Case Estimates

By the end of the first year, case reserves tend to deteriorate by 60% to 80%. 
Excess of Capped TPI Analysis
Adequacy of Case Estimates

- By the end of the second year, case reserves much more adequately reflect the ultimate cost
- However, all years still show some adverse development of up to 20%

Incurred development relative to month 24 (IBNER only)

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Appendices
Collaboration with the PPO Working Party

Estimating the ultimate number of PPOs

Private Car Comprehensive Frequency (in layer and above) (claims per million vehicle years)

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Ultimate number of PPOs for AYs 2010 and prior:
2 to 4 times* the current settled number

*based on a number of ‘heroic’ assumptions - see presentation by David Brown and Sarah MacDonnell at the 2011 Reserving Seminar
The claims environment continues to evolve

- **Changes in claims handling** approaches for dealing with Portal claims
- **Claims Management** firms shifting focus to PPI?
- **OFT’s** investigation into **credit hire** and **repair networks** as part of its motor insurance enquiry
- Launch of Alternative Business Structures (ABS)
- Legal Aid, Sentencing and Punishment of Offenders Bill (LASPO) (implementation April 2013)
  - **Ban on referral fees**
  - **Recoverability** of success fees and ATE premiums to be removed
  - **Reductions** in lawyers **fixed fees**?
  - …but will ABSs be used to circumnavigate the referral fee ban?
- **Increase** the upper threshold for the Portal to **£25,000** (April 2013) and roll out the Portal to EL and PL claims (not before April 2013)
Valentine’s Day summit with the Prime Minister

• Insurer commitment to pass on the savings to customers:
  – if RTA Portal fixed legal costs are reduced from current levels
  – arising from banning referral fees and the recoverability of success fees and the ATE premium from the defendant

• Joint commitment with government to reduce the cost of small personal injury claims through:
  – improving medical evidence – consideration of medical panels
  – removing small “nuisance claims” and introducing a minimum speed of impact for whiplash claims

• Joint commitment to investigate the use of telematics to reduce the risks to young drivers and to improve affordability.
Working Party activity in 2012

- Deeper dive on private car comprehensive business only
- Better understanding of the impact of the MOJ RTA Portal
- Geographical analysis at a more granular level than TV Region
- Repeat of large claims analysis and better integration with PPO Working Party
- More detailed analysis of smaller personal injury claims by layer
- Other analyses using publicly available data
- Workshops at the Pricing Seminar, the Reserving Seminar and GIRO
- Communications subgroup to continue
- New members welcome from companies which are willing to supply data!

Much insightful analysis will come from this, but many of the deeper insights will only come if companies can provide the data.
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.
Data from the Compensation Recovery Unit

- Insurers must notify the CRU of all claims for compensation in order that the CRU can recover any state benefits paid from the liable insurer.
  - It may be possible for the insurer to offset some of the recoverable benefits paid to the CRU by deducting them from the amount of compensation paid to the claimant to avoid double compensation.
  - This offsetting is restricted within heads of damage so, for instance, claims for loss of earnings can be offset by any jobseeker’s allowance, whilst claims for cost of care can be offset by any attendance allowance paid by the Department of Work and Pensions.
- The number of claims notified to the CRU therefore provides a good measure of the total number of injury claims arising from road traffic accidents.
- The recovery of the costs of NHS treatment is also administered by the CRU under a separate scheme.
- A process map for the CRU is shown on the next slide.
Compensation Recovery Unit

Insurer is notified of an injury claim

If there are no recoverable benefits, CRU issues a certificate.

Insurer must notify CRU within 14 days. This is not an admission of liability.

Separately, CRU issues Certificate of NHS Charges

CRU issues certificate within 28 days

When insurer is ready to make an offer of compensation, it must apply to CRU for certificate of recoverable benefits.

Insurer notifies CRU of result of claim and date of final settlement

Insurer re-pays recoverable benefits to CRU within 15 days of making compensation payment.

Insurer pays compensation to claimant. May be able to offset some recoverable benefits.
TPI Frequency by TV region (Private Car Comprehensive)
TPI Frequency by TV region (Private Car Comprehensive)
Civil Justice: Consultation, England & Wales

- First major overhaul of the civil justice system in 15 years and reform of ‘no win no fee’ deals
- To prevent expensive / unnecessary litigation
- Proposals to make the system simpler, quicker, cheaper and more effective launched for consultation.
- Include plans to improve how court judgments are enforced
- Other measures include
- Expanding the use of a successful online system to
- Raising the maximum value for small claims from £5,000 to £15,000

- people receive what it is judged they are owed
- crack down on those debtors who won’t pay their debts
- abolish recoverability of success fees and associated costs in ‘no win no fee’ conditional arrangements
- introduce automatic referral to mediation in small claims cases
- mediation awareness sessions in higher-value cases, (to help people avoid court where possible)
- propose to raise the small claims limit and to change the county court jurisdiction so that the High Court is used for bigger and more complex claims only.
- introduce a 10 per cent increase in general damages, and a mechanism to protect the vast majority of personal injury claimants from paying a winning defendant’s costs (through qualified one way costs shifting).
- encouraging parties to make and accept reasonable offers
- Introducing a new test to ensure that overall costs are proportionate
- increasing the costs which can be recovered by people who win their cases without representation by lawyers
- slash waiting times and legal expenses using online system……..the time taken to resolve road traffic accident personal injury claims of up to £10,000 has dropped from one year to four months in some cases
- propose expanding the availability of this online system to process Employers’ Liability and Public Liability personal injury claims as well as deal with higher value claims of up to £50,000.

Taken from MOJ press release, 30 March 2011
Detailed MOJ process 1/4
Detailed MOJ process 2/4

Stage 2

Claimant Representative

1. CR to obtain Medical Report (MR)

2. MR checked for errors

3. CR to refer MR back to Medical Expert for correction

4. Insurer notified of likely associated for second MR

5. Insurer has 10 working days to respond and issue interim payment

6. Insurer has 10 working days to respond and issue interim payment as a minimum

7. Interim Payment of more than £1,000 requested – CR to send interim settlement pack and MR

8. MR confirmed as factually accurate

9. Second MR required

10. Second MR checked for errors when received

11. Second MR confirmed as factually accurate

12. CR refers MR back to Medical Expert for correction

13. CR checks third MR as required

14. Insurer has 10 working days to respond and issue full interim payment as requested or £1,000 as a minimum

Self Insured / Insurer

Out of Process

Proceed to Stage 2 Continued
Detailed MOJ process 3/4

Stage 2 continued

- 2.19 - CR prepares Medical Report and statement - pool and any receipts
- 2.20 - CR prepares Payment for Damages - pool and settlement considered
- 2.21 - Final settlement not agreed
- 2.22 - Counter Offer
- 2.23 - Reputations
- 2.24 - Refuse

2.25 - Court Hearing
2.26 - File Claim
2.27 - Counter Offer considered and accepted
2.28 - Claim to pool
2.29 - Claims not disputed
2.30 - Insurers complete comments and check accuracy of settlement pack

- 2.31 - Final settlement not agreed
- 2.32 - CR prepares and sends Stage 2 settlement pack to insurer
- 2.33 - Requires further discussion
- 2.34 - Response sent to CR

- 2.35 - Claimant
- 2.36 - Claimant

No, proceed to Stage 3

Proceed to Stage 3

- 2.37 - Final settlement agreed
- 2.38 - Inform insurers
- 2.39 - Finalise

Yes

Out of Process

15 Days

15 Days (Vary by agreement)
Detailed MOJ process 4/4

MOJ Process – Version 0.3 - 04/08/2009

Stage 3

10 Days from end of Stage 2

Claimant Representative

From Stage 2

3.2 - CR issues proceedings for quantum hearing. Stage 3 settlement pack, receipts, medical reports etc submitted in sealed envelope

3.4 - CR receives Stage 3 settlement pack

3.5 - Court hearing to determine damages

3.6 - Judgment received

Self Insured / Insurer

3.1 - Interim payment (full amount of defendants offer) and Stage 2 fixed costs paid

3.3 - If CR has not already done so, insurer can issue proceedings for quantum hearing. Stage 3 settlement pack prepared

3.7 - Insurer pays damages, interest and Stage 3 fixed costs

3.8 - If amount awarded at Stage 3 hearing is less than interim payment made, insurer takes steps to recover overpayment

Minimum 10 Days from end of Stage 2

Out of Process