General insurance pricing seminar
Grant Mitchell

Changes in Bodily Injury Claims Handling
…and what they mean for pricing actuaries

21 June 2011

Agenda

• Context
• Large Claims
  – Ogden
  – PPOs
• Attritional claims
  – MoJ Reforms
  – Claimants per claim
  – Fraud
  – Jackson
• Segmental Pricing
• Conclusions
Context

It’s never been so important to understand injury claims cost

But it’s never been more difficult

• Changes in environment
• Changes in processing
• Invalidates model assumptions – both globally and segmentally
Large Claims

- Frequency fairly stable
- Claims inflation
  - 4th IUA Study (2007) indicated 9% large claims inflation
  - Typically larger for the largest claims
  - Possibly falling slightly in more recent years
- Ogden
- PPOs / Lump sums

Ogden

- Discount rate
  - Set at 2.5% in 2001
  - Loosely based on 3 year average ILGS yield
  - A similar approach now would lead to a discount rate of ~1%
  - Helmot v Simon
- Lord Chancellor announced review on 9th November
- APIL launched Judicial Review on 1st April
- Lord Chancellor now expected to consult on methodology
- Impact of possible cut?
  - Increase in reserves c£2.5bn?
  - Ongoing cost c£500m p.a.?
  - Additional cost to NHSLA, MoD
- Deferred settlement waiting for a decision?
PPOs

- Additional cost
  - Reinsurance
  - Capital
  - Case-by-case review?
- Payment pattern
- Estimates?
- Impact of discount rate change on take-up?
- How to price
  - Treat as lump sum and load?
  - Separate allowance?

Source: Actuarial Profession Working Party – GIRO 2010
## Attritional Claims

Here's a triangle...

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What is going on here?
Attritional Claims

How will these develop?
Attritional Claims

• Frequency increasing
  – Claims farming?
  – Recession?
  – Fraud?
  – MoJ?
  – Claimants per claim?
• Process changes
  – MoJ speeding up
  – Changes in legal fees
• Can we separately identify the two?

Attritional Claims

• Can we separately identify the two?
• Probably not, but can enhance our level of confidence
  – Use different methods
  – Paid / Incurred triangles
  – Average cost
  – TPPD propensity
  – Operational time methods
  – etc
MoJ Reforms

• Apply to claims occurring from 30/4/10
  – But if handlers are geared up to the new timescales, are they applying them on older claims too?
  – Initial difficulties with portal
• Claims between £1000 and £10000
  – Leads to more £1000 claims?
  – Knock-on effect on larger claims?
• Accelerates notification and first payment

MoJ Reforms

MIB experience
• Claims against uninsured drivers follow MoJ process
• Claims against untraced drivers do not

Source: Towers Watson analysis of MIB data
Claimants per Claim

- Increasing?
- Groupama – H1 2009 – report increase from 1.2 to 1.5
- Admiral defy market expectations – “no increase in claimants per claim”
- Are you tracking it?
- Frequency or severity?
- Impact on notification / payment patterns?
Fraud

- Increasing
- Geographical bias?
Fraud

Actually it's intensity of registered claims management companies.
Source: Third Party Working Party 2010

Fraud

- Increasing
- Geographical bias?
- How are cases reserved?
- Impact on frequency – but what about severity?
- How many are not detected?
Jackson

- Government proposals published March 2011
- Non-recoverability of success fees / ATE premium
- Qualified one-way cost shifting
- 10% increase in general damages
- Possible reduction in frequency?
- Severity?
- Possible extension of MoJ to claims up to £50K
- Referral fees – Legal Services Board rejected a ban

Segmental Pricing

- Models
- Need to enhance signal
- Propensity models
- Postcodes
- How quickly will it change?
- Time test
Conclusion

- Talk to your claims team
- Data
- MI / Insight
- Use different methods
- Track your assumptions – what would you expect to see next?

REMEMBER – IT’S NEVER BEEN SO IMPORTANT!

Any Questions?