

The Actuarial Profession
making financial sense of the future

Update from the Third Party Working Party
General Insurance Pricing Seminar, 21 June 2011



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This handout 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.

Acknowledgements

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Industry Results from Third Party Working Party

- Second Industry Study which will culminate in final publication at GIRO
- A significant number of insurers contributed a vast array of information on third party claims (injury and property damage) that made this section 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
- Most of the graphs show industry accident year triangulation progressions
- This facilitates the comparison of experience on a "like-for-like" basis (at least in relation to development)
- Inflation rates shown are the latest point in the year compared to the previous accident year at the same point in development

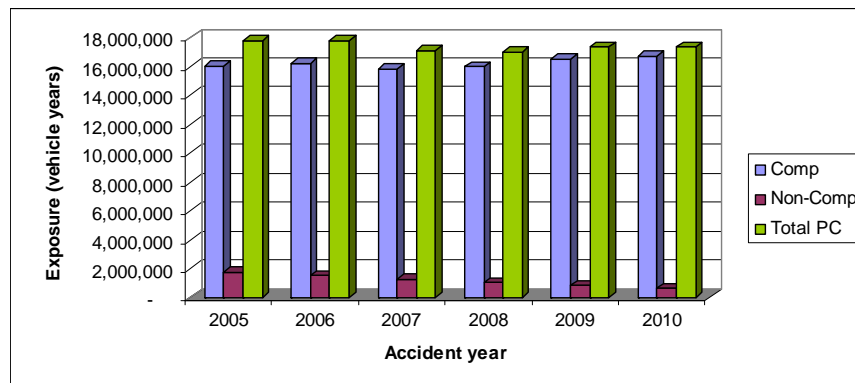
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2. Key developments since the last study
3. Industry Results
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 - a) TPD
 - b) TPI
 2. Non-Comp
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4. Next Steps of the Working Party

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%

Notes on Data

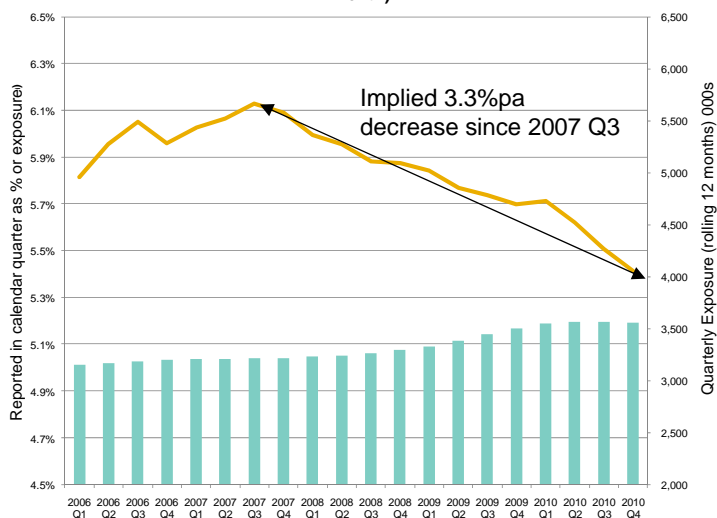
1. Claim Numbers Reported in calendar period as % of exposure
2. Private Car Comprehensive development graphs of key trends, TPD and TPI Capped (at £50k in 1999 money, indexed at 7% p.a.), including a refresh of last year's position based on the latest data for ease of comparison
 - Reported claim frequency
 - Incurred average cost
 - Claim settlement rate
 - 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.

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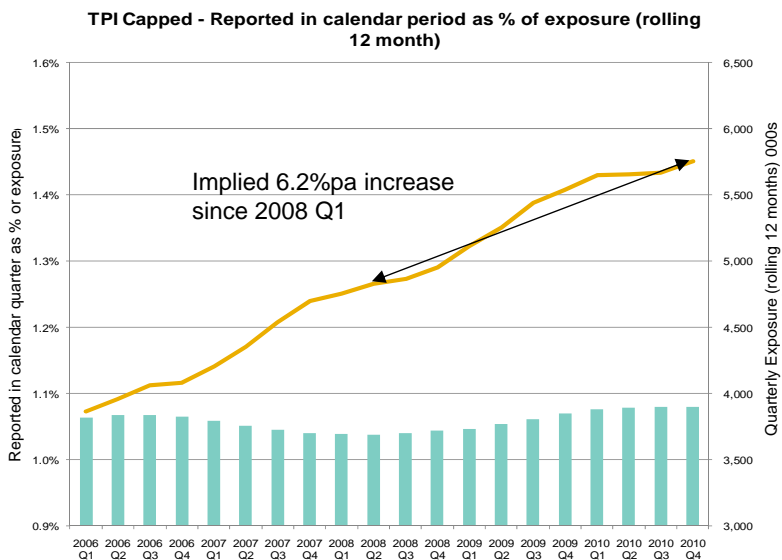
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Comprehensive

TPD - Reported in calendar period as % of exposure (rolling 12 month)



Comprehensive



Third Party Working Party - Contents

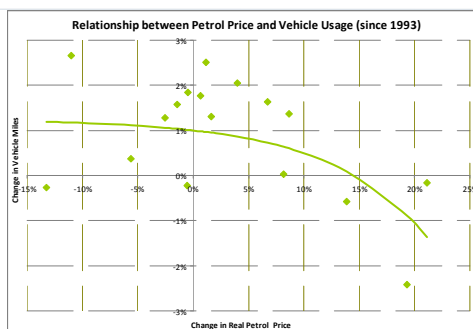
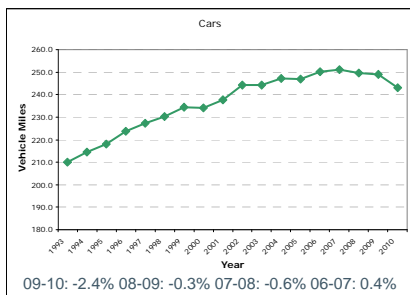
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2. Key Developments since the Last Study

1. Road Usage Data
2. Data from the Compensation Recovery Unit
3. An Update on CMCs
4. Update on MOJ

2.1 Road Usage Data

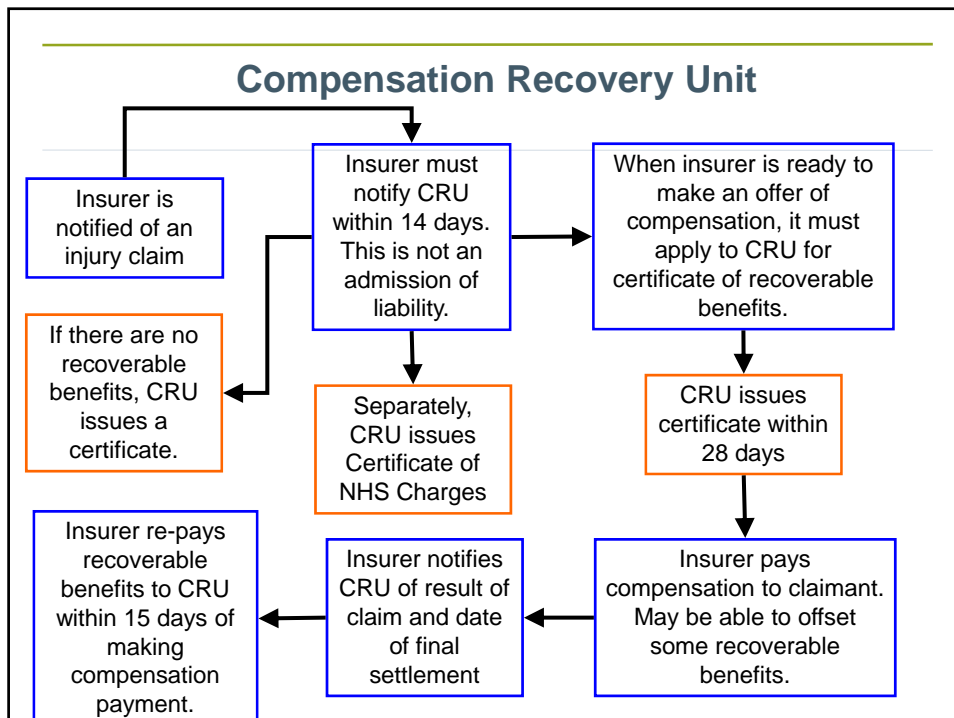
- There is a broad correlation between road usage and changes in petrol prices – with greater sensitivity to increases than decreases



- Road usage has been dropping since 2007
- With a more pronounced drop in 2010 of 2.4%

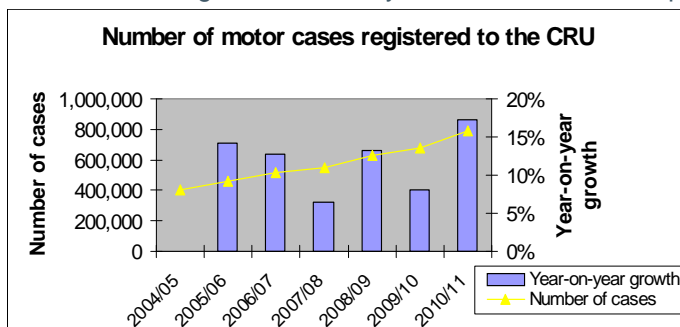
2.2 Data from the Compensation Recovery Unit

- 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.



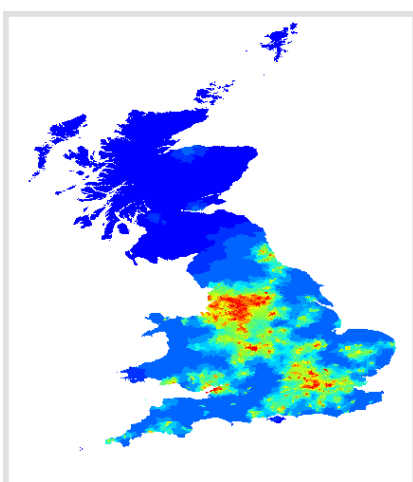
CRU Data

- 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
- This is based on registration so may reflect an element of speeding up.

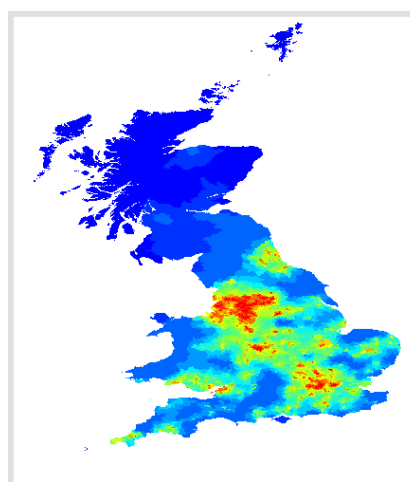


2.3 An Update on CMCs: bucking the general economic trend

Authorised CMCs increased by circa 20% (2586 vs 2142)

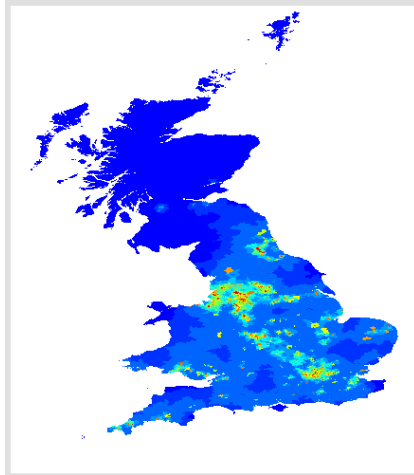


2010 CMC Density per head of population: Adjacency smoothed (60)



2011 CMC Density per head of population: Adjacency smoothed (60)

Known hotspots have seen 20% growth overall. But the really high growth areas are Manchester, Liverpool, the North East of England, West of London, Norwich, Exeter and Plymouth.



2010 - 2011 CMC Density per head of population: Adjacency smoothed (60)

Areas of previous high density are also areas of significant growth:

- the top 20 areas from 2010 have seen around 20% increase
- Manchester and Liverpool both show increases of close to 50%

The highest % increases in density are more diverse geographically:

- Manchester and Liverpool both feature as high growth areas but are joined by the North East (Newcastle, Cleveland, Darlington), West of London (Slough, Kingston-upon-Thames, Twickenham) as well as the likes of Norwich, Exeter and Plymouth.

But some areas have reduced:

- Blackburn and Huddersfield are unusual in showing a reduction in the number of CMCs since 2010.

2.4 Update on 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
- The reduction in legal fees should also mean that solicitors have less capacity to pay referral fees to CMCs

However, Insurers have some concerns

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.

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Taken from MOJ press release, 30 March 2011

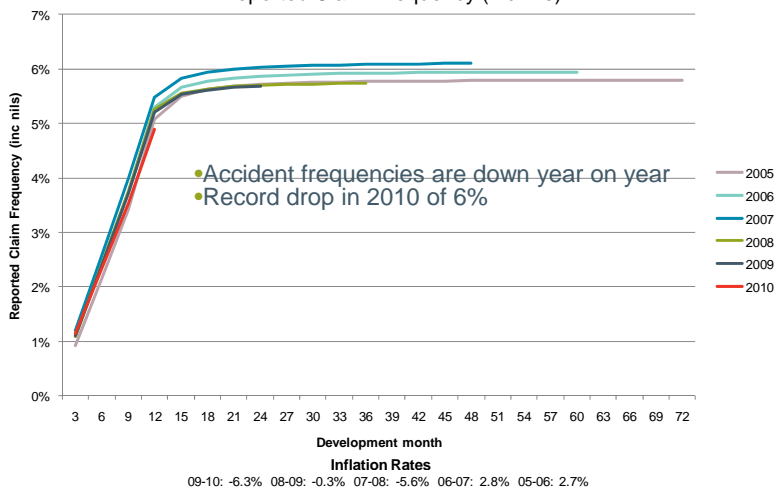
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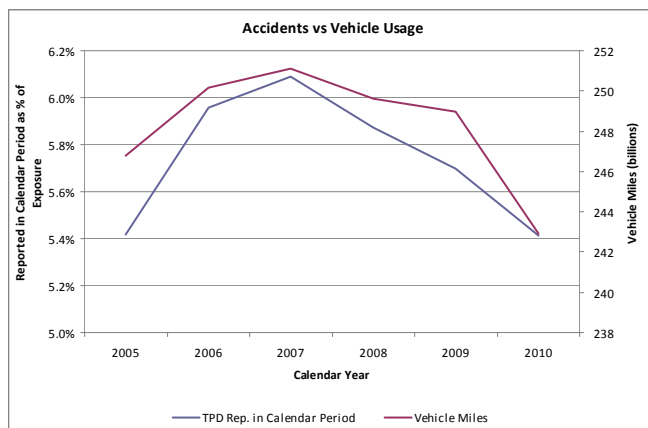
2010 Statistic

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



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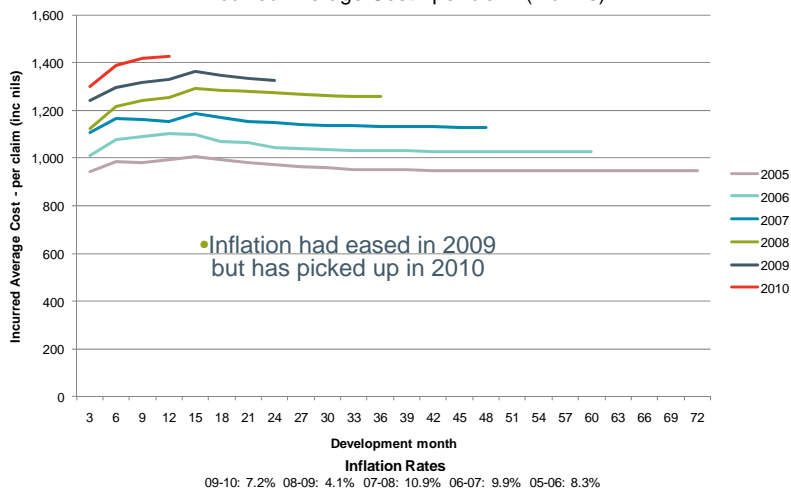
Unsurprisingly there is a clear relationship between road usage and the number of accidents



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2010 Statistic

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

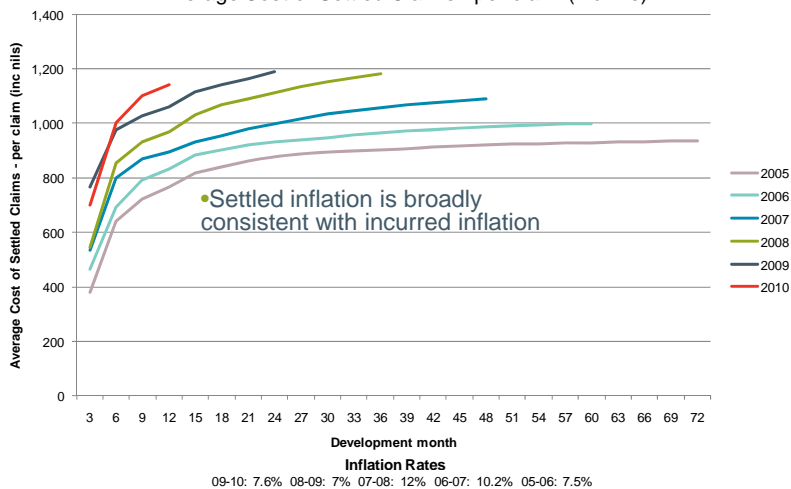


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2010 Statistic

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

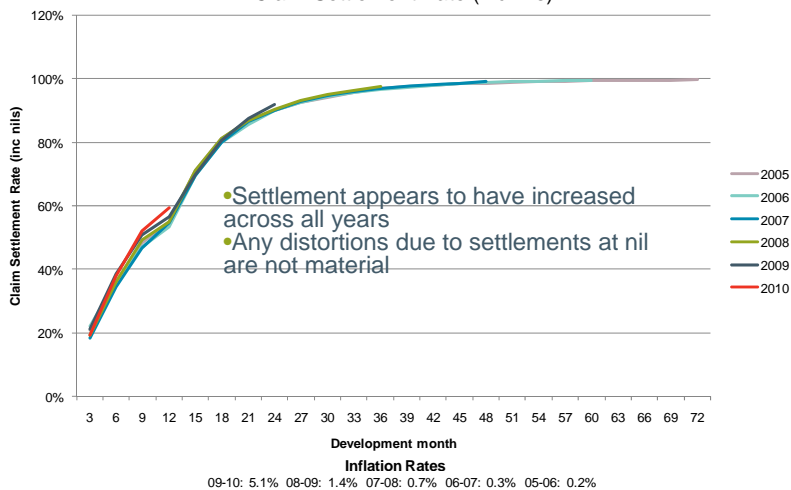


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2010 Statistic

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

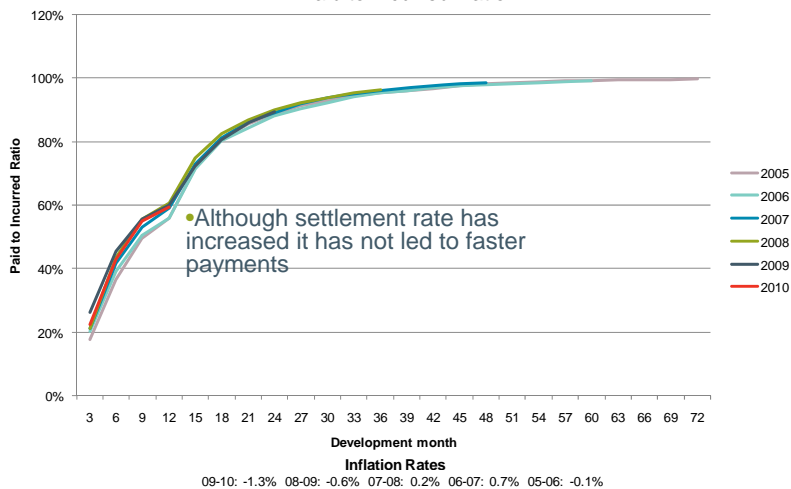


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2010 Statistic:

Private Car Comp - All Distribution Channels - TPD
Paid to Incurred Ratio



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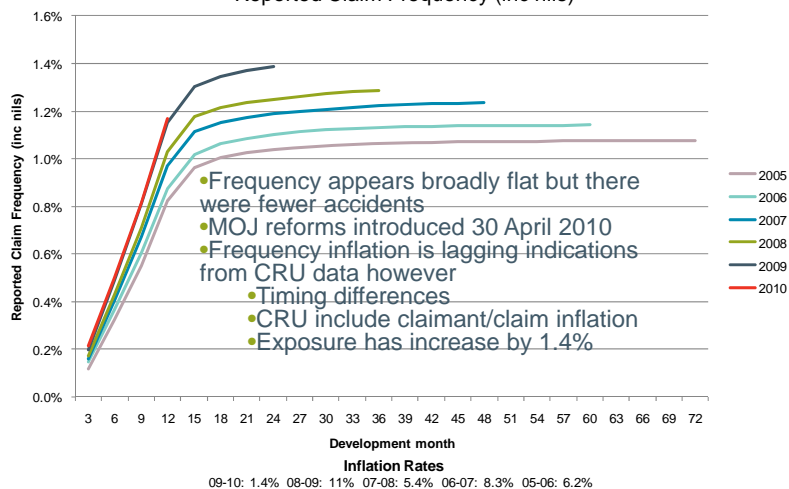
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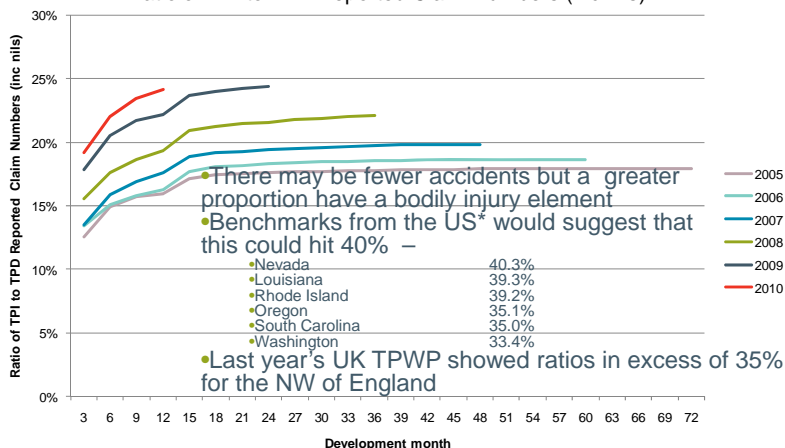
2010 Statistic

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



2010 Statistic

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



Inflation Rates
09-10: 9.1% 08-09: 13.2% 07-08: 12% 06-07: 6.5% 05-06: 4.1%

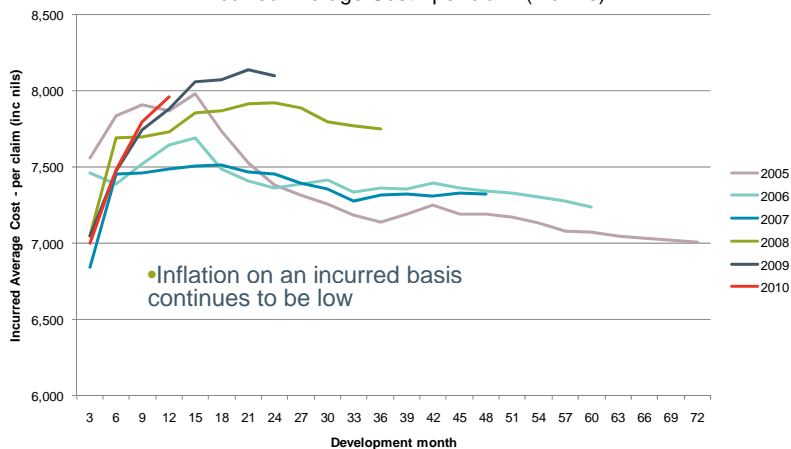
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*ISS's Private Passenger Fast Track Data reports

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2010 Statistic

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



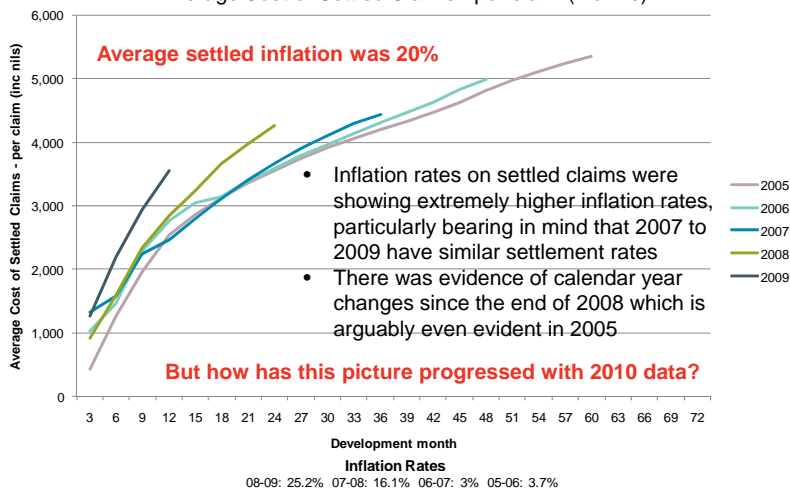
Inflation Rates
09-10: 1.1% 08-09: 2.2% 07-08: 6% 06-07: -0.3% 05-06: 2.4%

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2009 Statistic (using latest data)

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

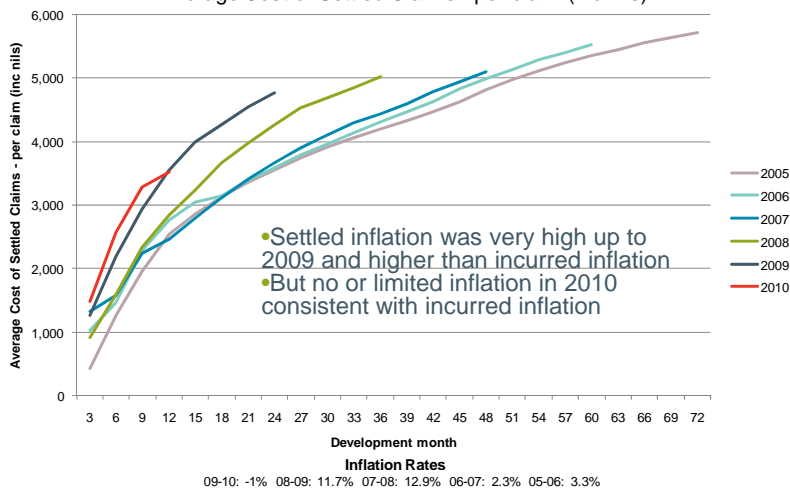


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2010 Statistic

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

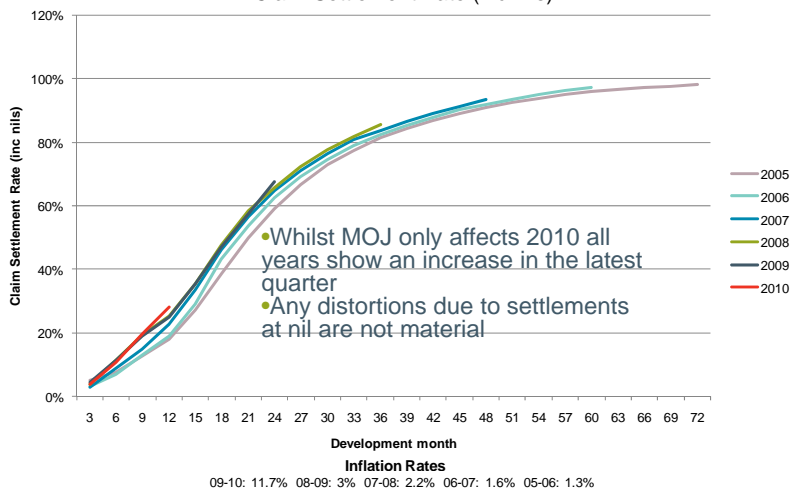


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2010 Statistic

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

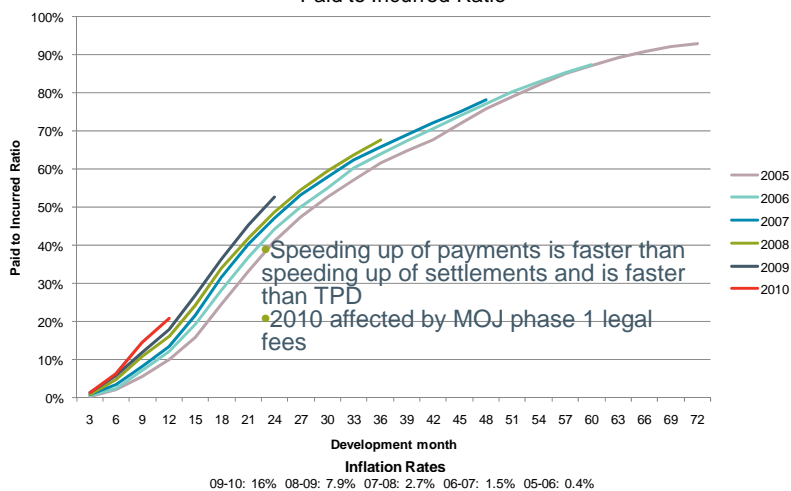


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2010 Statistic

Private Car Comp - All Distribution Channels - TPI Capped
Paid to Incurred Ratio



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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

Damage	Injury
<ul style="list-style-type: none"> 2010 road usage down and 6% fewer accidents But high average cost inflation continues at 7% Insurers are settling more quickly 	<ul style="list-style-type: none"> Increasing proportions of accidents involve TPI with inflation in TPI/TPD freq of circa 10% But with fewer accidents in 2010, TPI frequency increases are marginal 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. 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 <ul style="list-style-type: none"> This has been flattered by lower numbers of accidents driven by potentially short term suppression of road usage The early stages of the MOJ process give us no knowledge of how the new process will develop at Stage III. Case estimate strength remains a significant issue for 2009 & 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

There are high levels on uncertainty on 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 claims and doubt as to the costs of the MOJ process over its full life cycle → risk of underpricing

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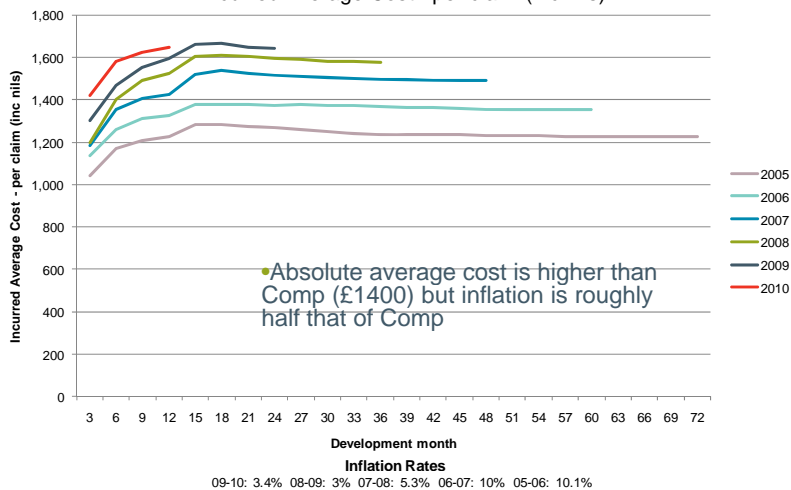
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2010 Statistic

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

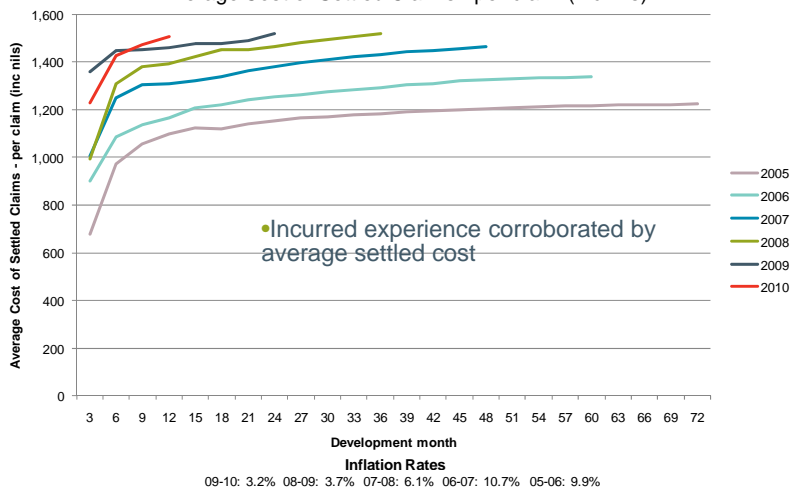


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2010 Statistic

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



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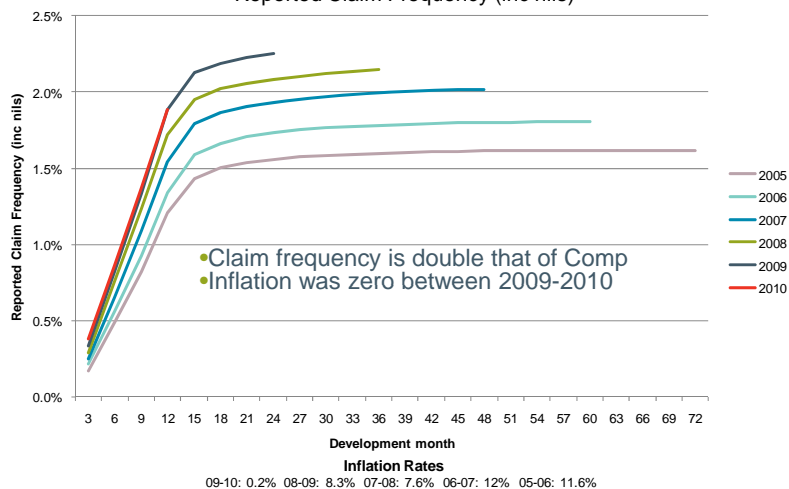
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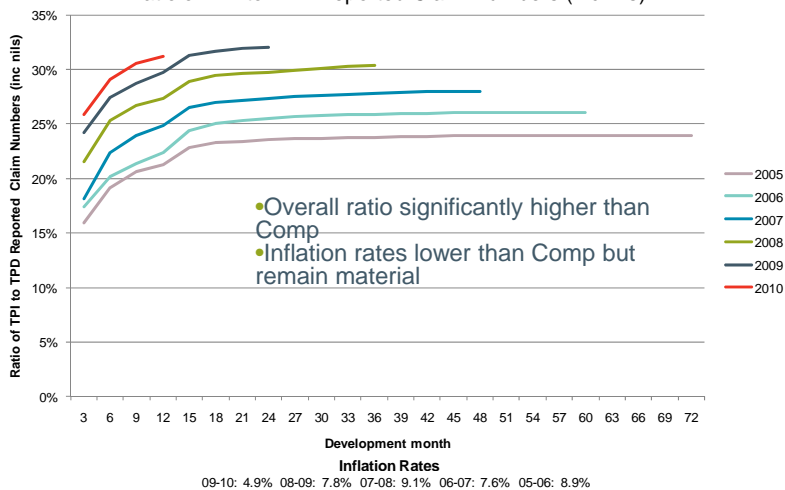
2010 Statistic

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



2010 Statistic

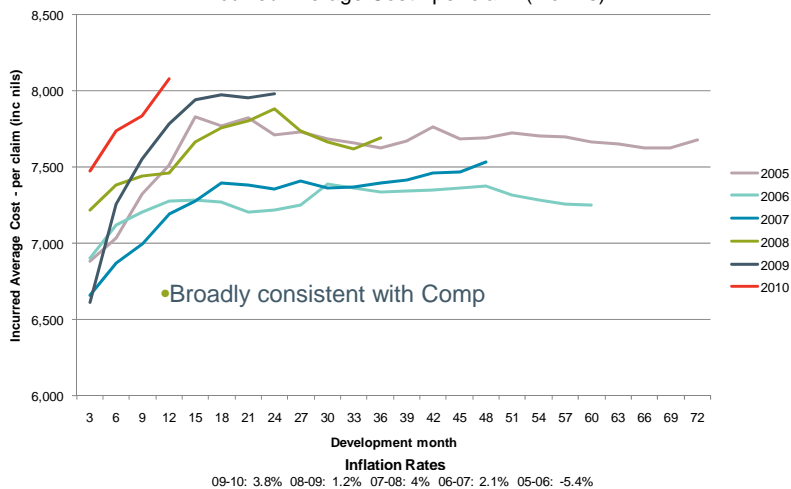
Private Car Non-Comp - All Distribution Channels Ratio of TPI to TPD Reported Claim Numbers (inc nils)



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2010 Statistic

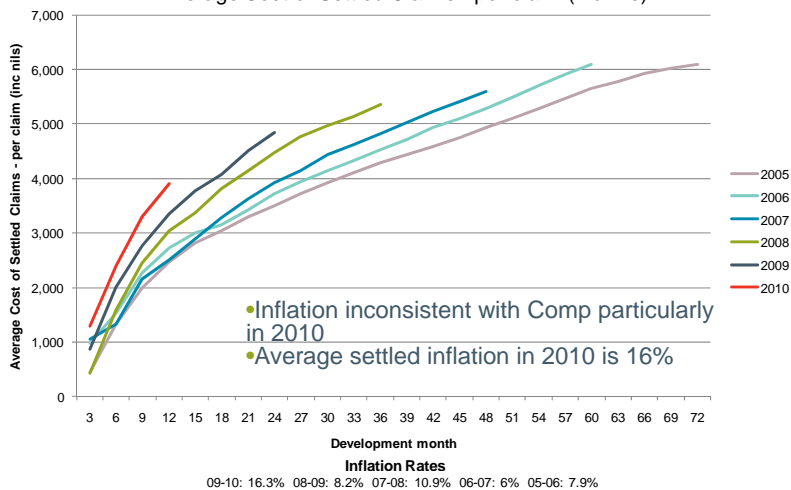
Private Car Non-Comp - All Distribution Channels - TPI Capped Incurred Average Cost - per claim (inc nils)



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2010 Statistic

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

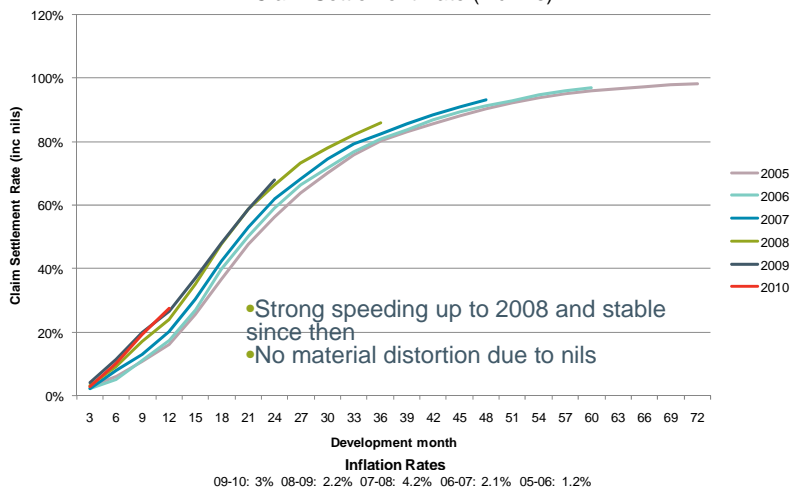


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2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPI Capped
Claim Settlement Rate (inc nils)

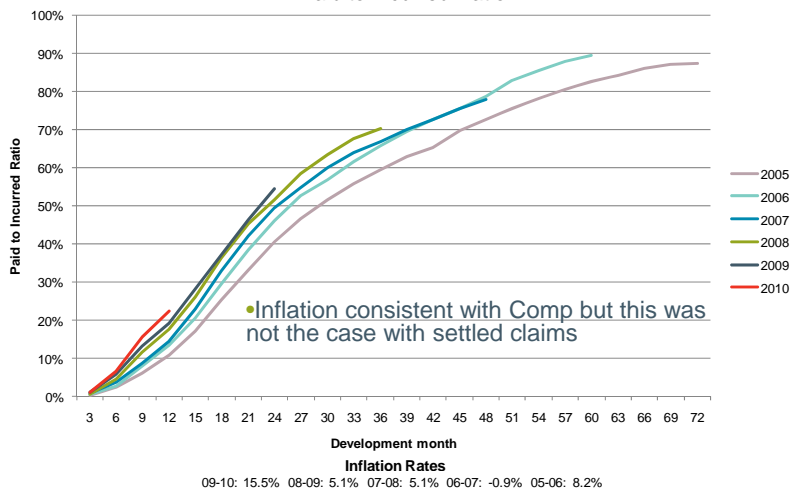


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2010 Statistic

Private Car Non-Comp - All Distribution Channels - TPI Capped Paid to Incurred Ratio



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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 placed 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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4. Next Steps of the Working Party

- Commercial Motor data
- Geographical data
- Analysis of publicly available data
- Large bodily injury data
- Claimant level data
- High level PPO data
- Head of damage data unlikely

certain

unlikely

Much insightful analysis will come from this
 But many of the deeper insights will only come if companies can provide further data

Questions or comments?

