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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.
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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
Third Party Working Party - Contents

1. Scene Setting
2. Key developments since the last study
3. Industry Results
   1. Comp
      a) TPD
      b) TPI
   2. Non-Comp
      a) TPD
      b) TPI
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.

Comprehensive

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

Implied 3.3%pa decrease since 2007 Q3
Comprehensive

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

Implied 6.2%pa increase since 2008 Q1

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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)
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 slashed waiting times and legal expenses using online system.
  - Raising the maximum value for small claims from £5,000 to £15,000.

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Unsurprisingly there is a clear relationship between road usage and the number of accidents.
2010 Statistic

**Private Car Comp - All Distribution Channels - TPD**

**Inurred Average Cost - per claim (inc nils)**

- Inflation had eased in 2009 but has picked up in 2010

**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 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 increase by 1.4%

Inflation Rates
09-10: 1.4%  08-09: 11%  07-08: 5.4%  06-07: 8.3%  05-06: 6.2%
2010 Statistic

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

- There may be fewer accidents but a greater proportion have a bodily injury element.
- Benchmarks from the US would suggest that this could hit 40% -
  - Nevada 40.3%
  - Louisiana 39.3%
  - Rhode Island 39.2%
  - Oregon 35.1%
  - South Carolina 35.0%
  - Washington 33.4%
- Last year’s UK TPWP showed ratios in excess of 35% for the NW of England.

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.

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2009 Statistic (using latest data)

- 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?

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

Private Car Comp - All Distribution Channels - TPI Capped

Claim Settlement Rate (inc nils)

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

Paid to Incurred Ratio

- Speeding up of payments is faster than speeding up of settlements and is faster than TPD
- 2010 affected by MOJ phase 1 legal fees
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>
</table>
| - 2010 road usage down and 6% fewer accidents  
  But high average cost inflation continues at 7%  
  Insurers are settling more quickly | - 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  
  - 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+IBNcr 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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**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

**Development month**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 Inflation Rates</td>
<td>3.4%</td>
<td>3.3%</td>
<td>3.1%</td>
<td>3.0%</td>
<td>2.9%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

- Incurred experience corroborated by average settled cost

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

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2010 Statistic

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

- Claim frequency is double that of Comp
- Inflation was zero between 2009-2010

Inflation Rates
- 09-10: 0.2%
- 08-09: 0.3%
- 07-08: 7.6%
- 06-07: 12%
- 05-06: 11.6%

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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

Inflation Rates
09-10: 4.9%  08-09: 7.6%  07-08: 9.1%  06-07: 7.6%  05-06: 8.9%

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%
2010 Statistic

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

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

- Inflation inconsistent with Comp particularly in 2010
- 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
- No material distortion due to nils
2010 Statistic

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

- Inflation consistent with Comp but this was not the case with settled claims

Development month
Inflation Rates
- 09-10: 15.5%
- 08-09: 5.1%
- 07-08: 5.1%
- 06-07: -0.9%
- 05-06: 8.2%

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

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