This is a short version of the findings of the 2015 report on third party motor claims from the Institute and Faculty of Actuaries (IFoA), analysing 2014 data. It updates and finalises an interim report issued on 17 September 2015.

These are the results of the sixth annual report from the Institute and Faculty of Actuaries collating and analysing data for UK third party motor claims provided by 18 of the top 20 UK motor insurers in 2014 (01 January to 31 December 2014 unless otherwise stated). The study focussed on private car comprehensive (PCC) experience and is based on PCC earned premium of £7.8 billion for the 2014 accident year. Third party motor insurance claims make up 70% of all motor insurance claims costs.

This document provides a summary of our findings for media use to support issued media releases. It updates a previous short report that we issued on 17 September 2015 in the light of our finalised results. A separate short report summarises additional findings on large third party injury claims.

Glossary

Burning cost: The average cost of insurance claims per vehicle. This is a combination of the frequency of a claim, and the average cost of a claim.

CMA: Competition and Markets Authority

CMC: Claims management companies. These businesses offer claim management services to assist individuals in making claims for items such as compensation. They will either provide their own solicitors or access to other third party solicitors to assist the individual in making a claim.

Claims farming: Claims management companies retrospectively filing claims on behalf of clients.

Claim severity: the average cost to insurers of a claim.

JSB: Judicial Studies Board, see Judicial College.

Judicial College: Formerly the Judicial Studies Board (JSB), is responsible for training judges in Crown, County and higher courts in England and Wales and tribunals judges in England and Wales, Scotland and Northern Ireland. It publishes the “Guidelines for the Assessment of General Damages in Personal Injury Cases” which are designed to provide a clear and logical framework for the assessment of damages in personal injury cases.

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Large claims: most serious TPI claims with estimated costs above £131,000 for accidents in 2014 (corresponding to £100,000 in 2010, inflated at 7%).

LASPO: Legal Aid, Sentencing and Punishment of Offenders Act (in force since 1 April 2013). LASPO introduced a number of measures that impacted TPI claims, including the banning of referral fees that were formally used to encourage claim filing and reductions to the third party legal costs which can be recovered as part of the TPI claim.

MedCo: Since 6 April 2015 all soft tissue injury claims caused by a road traffic accident are subject to diagnosis by contractors of a new company, MedCo. It is a system to facilitate the sourcing of medical reports in soft tissue injury claims brought under the MoJ's new Pre-Action Protocol for Low Value Personal Injury Claims in Road Traffic Accidents.

MoJ Portal: the Ministry of Justice claims portal is a stakeholder-led secure electronic communication tool for processing low value personal injury claims.

Nil claims: Claims which are notified but ultimately settle for no payment to the claimant.

TPI: third party injury – claims arising when a driver causes personal injury to other persons for which he/she is liable. In the analysis TPI claims have been "capped" at £100,000 (for accidents in 2010, indexed at 7% per annum for other accident years) to remove the distorting effect of very large claims.

TPPD: third party property damage – claims arising when a driver causes damage to the property of other persons for which he/she is liable.

TPI/TPPD ratio: the ratio of TPI/TPPD represents the proportion of (third party) insured accidents involving (third party) injury. So a 50% figure would mean that 1 out of every 2 TPPD claims have an associated TPI claim.

TPWP: Third Party Working Party- Working party that is part of the Institute and Faculty of Actuaries (IFoA).

Key findings

1. The 2013 LASPO reform had a significant impact on third party injury claims with reductions in third party injury claims frequency, the number of claimants per claim and in the average cost per claimant.

2. The long-term effects of legal changes such as LASPO remain uncertain. Based on the latest projections, reductions in TPI claims costs arising from LASPO in 2013 completely stalled in 2014 (0%) with a return of inflation in the second half of 2014 (2%) following a 2% reduction in the first half of 2014. This in contrast to the significant fall in 2013 (-20%, comparing H2 2012 with H2 2013) immediately after LASPO came into force. There is no strong evidence of the impact of the reforms varying by region.

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3. Frequency reductions for TPI claims continued in 2014 (-1.5%) in the post-LASPO environment, following an 11% reduction in 2013. However, caution is advisable as there are a number of other more adverse indicators such as MoJ portal notifications, CMC turnover increases and a less benign environment in underlying accident frequencies (see point 5 below).

4. TPI claims saw a further reduction in the average number of claimants per claim (-2.8%, 2013: -1.4%). Severity inflation of small TPI claims has returned in 2014 (+1.4%, 2013: -5.8%) following the LASPO driven reduction in 2013.

5. Former frequency reductions in insured accidents, as measured by TPPD, **stalled entirely in 2014 against the long term trend of 5% year on year reductions.** However, this should be set against small increases in mileage, cars in use and congestion as well as increasing numbers of TPPD claims being settled at nil. For 2013 claims, over 30% are expected to settle without payment. However, the cost of claims settled with payment continues to rise, with **severity inflation in 2014 of 3.9%, continuing the longer term trend of 4% year on year increases.**

6. The average TPPD claim value in 2014 is estimated to be £2,269. The average TPI claim (excluding large claims) in 2014 is projected to be £8,720.

7. Quoted third party motor insurance premiums increased since the second half of 2014 and are 3.4% higher than a year ago.
After 2.5 years of premium decreases due to increasing competition as well as negative claims inflation from the LASPO reforms, premiums began to rise in the second half of 2014. A small reduction in the first quarter of 2015 was being more than offset by increases in the second quarter.

8. Over the period July 2014 - June 2015, the number of authorised Personal Injury CMCs has decreased further by 16% to 934, following even larger reductions over the previous two years. These reductions are driven by consolidation within the industry and could be linked to the banning of referral fees following the implementation of LASPO. Despite the fall in the number of **CMCs, turnover actually increased in the year to March 2015 by 30% to £310m**. This may be caused by more accident management activity, including vehicle recovery, storage, repair and hire, which is proving more profitable than injury claims services. This may well result in higher future average cost inflation in TPPD.

9. Chancellor's Autumn Budget: The Autumn Budget announced on 25 November 2015 proposes two actions intended to reduce whiplash claims: (i) an increase to the small claims court limit to £5,000 from £1,000 and (ii) the removal of the right to general damages for minor injuries (loss of earnings and rehabilitation will still be compensated). **The government expects the reforms to reduce motor insurance claims costs by £40-50 per policy. However, in order to reach this level of savings significantly more claims would have to be excluded or reduced than those that will be affected by the reforms. In 2014 all TPI claims up to £13k together are estimated to have contributed over £47 to the average cost per policy**, so it would be necessary to exclude all these claims in order to reach the targeted level of savings. The reforms will certainly reduce claims costs arising from whiplash injuries and consequently will lower the average premium per policy but are unlikely reduce premiums to the full extent suggested by the government.

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Appendix 1: supporting data

Source of all data unless otherwise stated is the Institute and Faculty of Actuaries, Update from the Third Party Working Party, October 2015.

UK Road Usage measured in average mileage driven per vehicle
UK Car Park measured in thousand licensed cars

Period	Car Park	% Change	Average Mileage	% Change
2003	26,240		9,234	
2004	27,028	3.0%	9,065	-1.8%
2005	27,520	1.8%	8,866	-2.2%
2006	27,609	0.3%	8,943	0.9%
2007	28,000	1.4%	8,832	-1.2%
2008	28,161	0.6%	8,714	-1.3%
2009	28,246	0.3%	8,667	-0.5%
2010	28,421	0.6%	8,437	-2.7%
2011	28,467	0.2%	8,455	0.2%
2012	28,722	0.9%	8,366	-1.1%
2013	29,141	1.5%	8,236	-1.6%
2014	29,611	1.6%	8,257	0.3%

Source:
https://www.gov.uk/government/statistical-data-sets/oil-and-petroleum-products-weekly-statistics/
https://www.gov.uk/government/organisations/department-for-transport/about/statistics

Average car mileage per year has fallen by 11% since 2003 with an average annual reduction 1% a year. The change in average annual mileage does not appear to be closely aligned with change in petrol prices. The number of licensed cars has risen by 13% since 2003, essentially offsetting the reduction in average mileage. The total mileage driven in 2014 is back to the 2003 level.

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Road Congestion measured as reduction of average speed during morning hours

Year	Average speed in miles per hour
2007	24.6
2008	24.9
2009	25.2
2010	24.8
2011	25.3
2012	25.1
2013	24.7
2014	24.1
2015 H1	23.7

Source: https://www.gov.uk/government/statistics/congestion-on-local-a-roads-england-april-to-june-2015

Congestion has increased year on year since 2011. It is positively correlated with the total number of miles driven per year.
The average increase in congestions was 1.6% a year from 2011 to 2014. In 2015 congestion has increased further by 1.9% with an average speed of 23.7 mph for the first half of 2015.

Latest development TPPD claims

TPPD Frequency
The table shows the *changes* in the projected frequency of TPPD claims (excl. Nils) and *changes* in the settled at nil TPPD rates.

Period	Change in Projected Frequency	Change in Settled at Nil
2006-2007	-1.6%	5.9%
2007-2008	-3.1%	-3.6%
2008-2009	-1.2%	-3.4%
2009-2010	-5.1%	-0.7%
2010-2011	-14.2%	3.3%
2011-2012	-6.7%	8.9%
2012-2013	-4.9%	6.3%
2013-2014	0.0%	-0.2%
Average (2006-2014)	-4.7%	2.0%

From 2006 to 2014 TPPD frequency has fallen on average by 4.7% per year and 32% in total.

This was partly a result of the reduced mileage per vehicle but TPPD frequency rates have reduced by more which represents a continuation of a general trend in reducing numbers of accidents with increased safety measures within vehicles and reductions in speeding seen over the period.

In 2014 this reduction in TPPD frequency appears to have stopped with the frequency in 2014 projected to be the same as in 2013.

Whilst the stalling in frequency reduction does come following increases in car park, mileage and congestion, these increases are no more marked than in previous years, when frequencies have decreased nonetheless

There has been a continuous trend since 2010 for a greater proportion of TPPD claims to settle at Nil cost. For the 2013 accident year the proportion of TPPD claims settling at nil could exceed 30%. This could potentially arise from tighter processes associated with management of TPI claims under the MoJ portal.

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TPPD severity

The table shows the *changes* in the severity of TPPD claims (excl. Nils) both on a projected and settled basis.

Period	Change in Projected Severity
2006-2007	10.2%
2007-2008	5.8%
2008-2009	2.7%
2009-2010	3.7%
2010-2011	5.7%
2011-2012	7.5%
2012-2013	1.8%
2013-2014	3.9%
Average (2006-2014)	5.1%

Following significant levels of claims severity inflation in 2011 and 2012, the inflation rate in 2013 reduced to 1.8% to go up again in 2014 to a projected 3.9%.

TPI claims

The 2013 LASPO reform had a significant impact on TPI claims. The ban on referral fees and cash incentives together with reduced costs payable in Road Traffic Accident (RTA) cases lead to substantial reductions in TPI claims frequency and severity.

Change in Projected TPI Claim Frequency (excluding Nil claims)

Period	Change in Frequency
2006-2007	-1.1%
2007-2008	1.6%
2008-2009	1.8%
2009-2010	5.5%
2010-2011	0.9%
2011-2012	1.6%
2012-2013	-10.9%
2013-2014	-1.5%
Average (2006-2014)	-0.4%

In 2013 the projected TPI frequency fell by about 11%. This reduction is largely seen as a result of the LASPO reforms and is consistent with the MoJ Portal statistics.

The frequency has decreased further by 1.5% in 2014. The frequency trend is not consistent with portal data which shows claimant notifications returning to pre-LASPO levels.

Change in Projected TPI claim severity (excluding Nil claims)

Period	Change in Projected Severity
2006-2007	2.5%
2007-2008	10.3%
2008-2009	13.5%
2009-2010	-0.5%
2010-2011	1.0%
2011-2012	1.2%
2012-2013	-5.8%
2013-2014	1.4%
Average (2006-2014)	2.8%

The level of Capped TPI inflation in the period 2010 to 2012 following the introduction of the MoJ portal has been low.

Following the reduction in legal fees as a result of LASPO and the related reforms the severity of small claims fell by 5.8% in 2013 but went up again by 1.4% in 2014.

However it should be noted that development patterns have fundamentally changed, so projected ultimate costs are subject to uncertainty and may defy initial expectations.

Average cost per policy for small TPI Claims (valued less than £131k in 2014)

The table below details the cost per policy of small TPI claims in 2014. Claims are banded by their estimated final cost.

Bands (2014 level)	Cost per policy	Relative contribution
£0 – 1k	£0.3	0%
£1k – 13k	£46.8	56%
£13k – 26k	£15.6	21%
£26k – 66k	£11.7	14%
£66 - 131k	£6.8	8%
Total	£83.1	100%

Claims in the £1k-£13k range contributed more than 50% of total claim cost of small TPI claims with an average cost per policy contribution of ca. £47.

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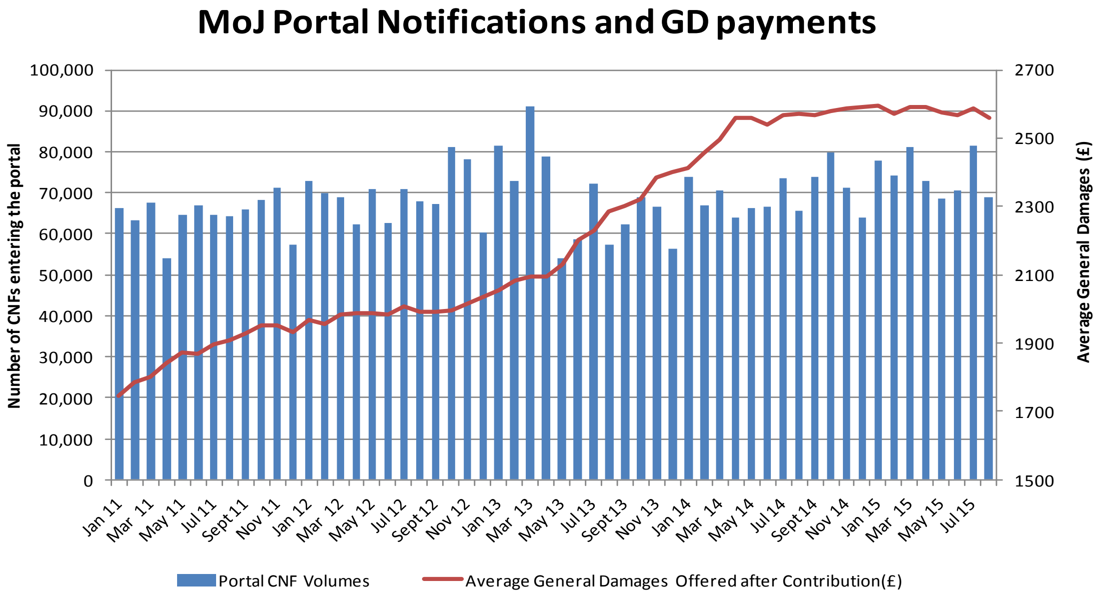
MoJ portal



The number of claims reported through the portal has recovered to pre-LASPO levels, having fallen by 10% after the introduction of LASPO and continues to rise into 2015 with levels around 9% higher than in 2014.

General Damage payments have stabilised, following a marked rise from 2012 to 2014 (c 23%). This is in line with the expected increases from the Judicial College Guidelines for the Assessment of General Damages and the 10% uplift in general damages post-LASPO upheld by the Court of Appeal (see table below).

A new edition of the Judicial College Guidelines was published on 17th September 2015 with an average uplift of 3.4%.

JSB Edition	Month Published	Average Uplift
8th	Sep-06	5.2%
9th	Sep-08	9.6%
10th	Sep-10	2.8%
11th	Sep-12	9.0%
LASPO	Apr-13	10.0%
12th	Sep-13	2.3%
13th	Sep-15	3.4%

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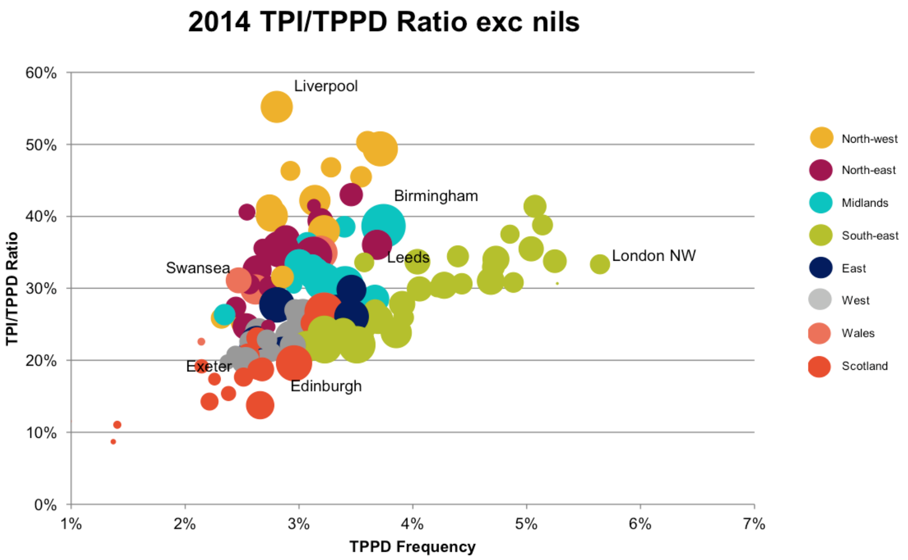
Claims experience by geography

TPI/TPPD ratio by area

By looking at the ratio of TPI/TPPD claims it is possible to obtain an indication of the propensity of road accidents involving third parties that result in TPI claims (higher ratios indicate more injury claims per accident).



The graph plots the 2014 TPI to TPPD ratio against TPPD frequency for UK postal towns with the size of the bubble corresponding to exposure (i.e. number of vehicles in the area). Overall the picture is similar to last year's.

The North West continues to have a high TPI to TPPD ratio with Liverpool having the highest ratio in the UK with around 55% of accidents resulting in an injury claim, which compares to the national TPI to TPPD ratio sitting just above 30%. The South East (and especially London) has a high frequency of TPPD claims. Scotland and the West Country have both low TPPD frequencies and low TPI to TPPD ratios.

TPI to TPPD ratios by region

Region	TPI/TPPD
North West	43%
North East	33%
South East	30%
Midlands	32%
Wales	30%
East	26%
West	24%
Scotland	20%

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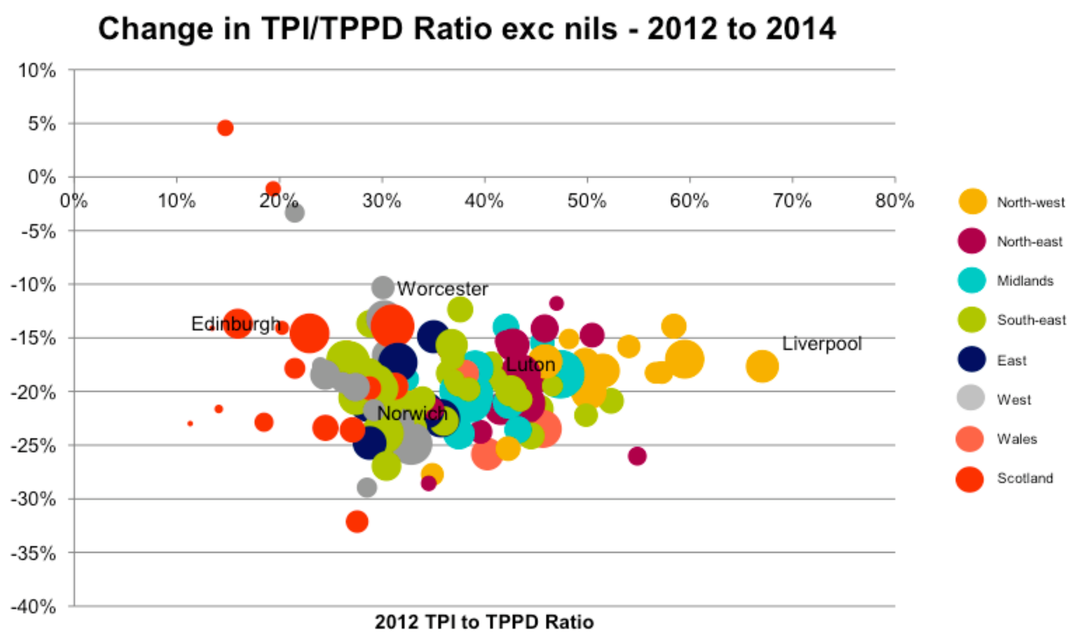
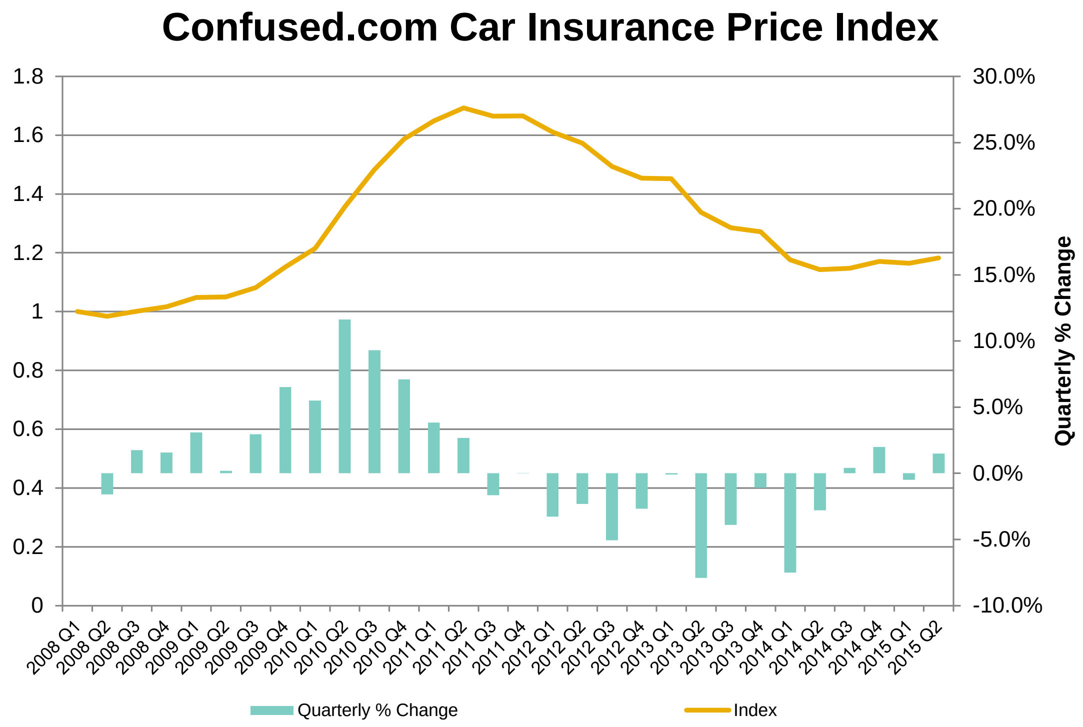
Towns with highest and lowest TPI/TPPD ratios

Ranking	Top TPI/TPPD postal towns	TPI/TPPD	Bottom TPI/TPPD postal towns	TPI/TPPD
1	Liverpool	55.2%	Aberdeen	13.8%
2	Oldham	50.3%	Inverness	14.3%
3	Manchester	49.4%	Perth	15.4%
4	Bolton	46.8%	Galashiels	17.4%
5	Wigan	46.3%	Dundee	17.7%
6	Blackburn	45.5%	Falkirk and Stirling	18.7%



The LASPO reform, in force since 1 April 2013, seems to have reduced the TPI/TPPD ratio (although this is still developing, so the ultimate shift will be less than the currently shown). It does not appear to have a greater impact on areas with high TPI to TPPD ratio to begin with.

Motor premium rate movements



Motor premium quotes rose significantly during 2010 as a consequence of increasing claims costs. However, premiums began to decrease from the end of 2011 and continued to fall sharply until 2014 Q2, reflecting increasing competition as well as negative claims inflation from the LASPO reforms.

Since then premiums have started to rise again and in the second quarter of 2015 they are 3.4% higher than a year ago.

From 2008 to 2015 premium rates have risen by an average of 2.2% per year.

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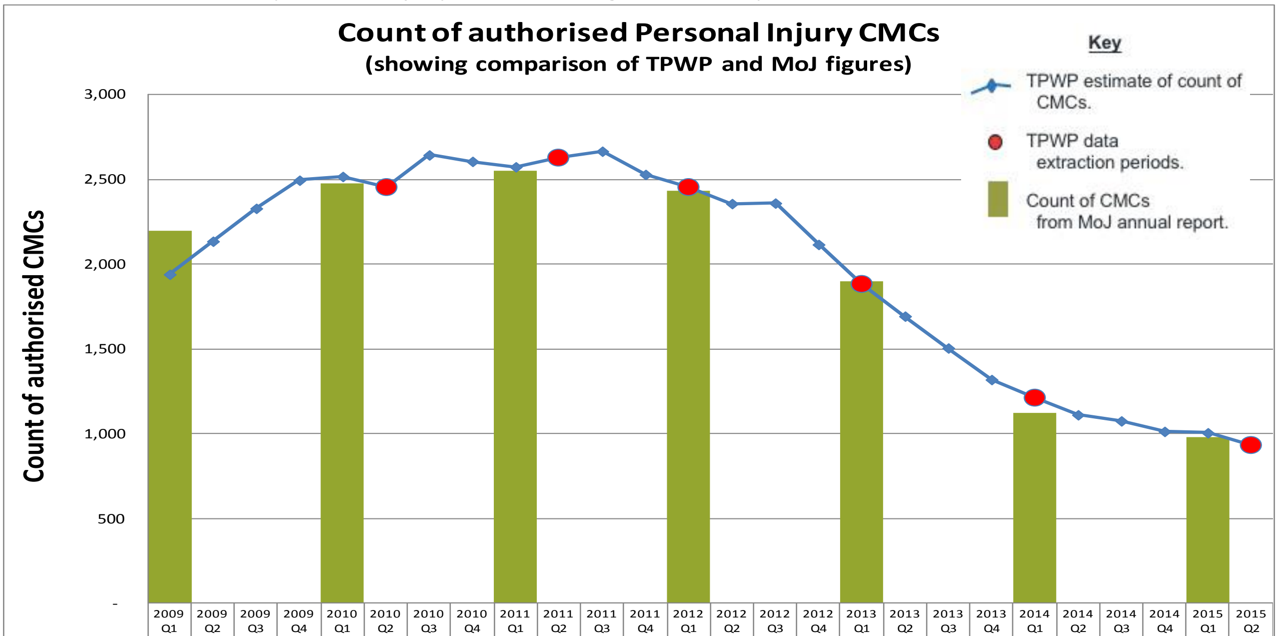
Claims management companies

Number of authorised personal injury claims management companies (PI CMCs)



	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2
MoJ Count	2,200				2,478				2,553				2,435				1,902				1,125				979	
TPWP Count	1,941	2,136	2,330	2,496	2,518	2,456	2,645	2,607	2,575	2,632	2,667	2,530	2,453	2,358	2,361	2,117	1,882	1694	1506	1320	1214	1112	1076	1014	1006	934

Source: https://www.claimsregulation.gov.uk/ http://www.justice.gov.uk/claims-regulation

The LASPO reforms introduced in April 2013 lead to a significant change in the personal injury claims market. In the year to June 2015 the number of authorised PI CMCs fell by 16% to 934, following the large reductions over the previous two post-LASPO years. It appears that the market started to stabilise after adjusting to the ban on referral fees and cash incentives and the reduction of costs payable in Road Traffic Accident (RTA) cases.

Turnover of authorised PI CMCs

Period	Turnover of PI CMCs
Dec 2009 - Nov 2010	£377m
Dec 2010 - Nov 2011	£455m
Dec 2011 - Nov 2012	£354m
Dec 2012 - Nov 2013	£238m
Dec 2013 - Nov 2014	£310m

Source: https://www.gov.uk/government/collections/claims-management-regulator-annual-reports

After the decline in turnover in 2012 and 2013, the latest Claim Management Regulation report shows that turnover has increased this year by 30% to £310m. This is likely to be driven by increased volumes of TPI claims in combination with the largest CMCs increasing their market share and the return of smaller CMCs to the market with new LASPO-compliant business models. In addition, accident management activity including vehicle recovery, storage, repair and hire, has been proving more profitable than injury claim services.

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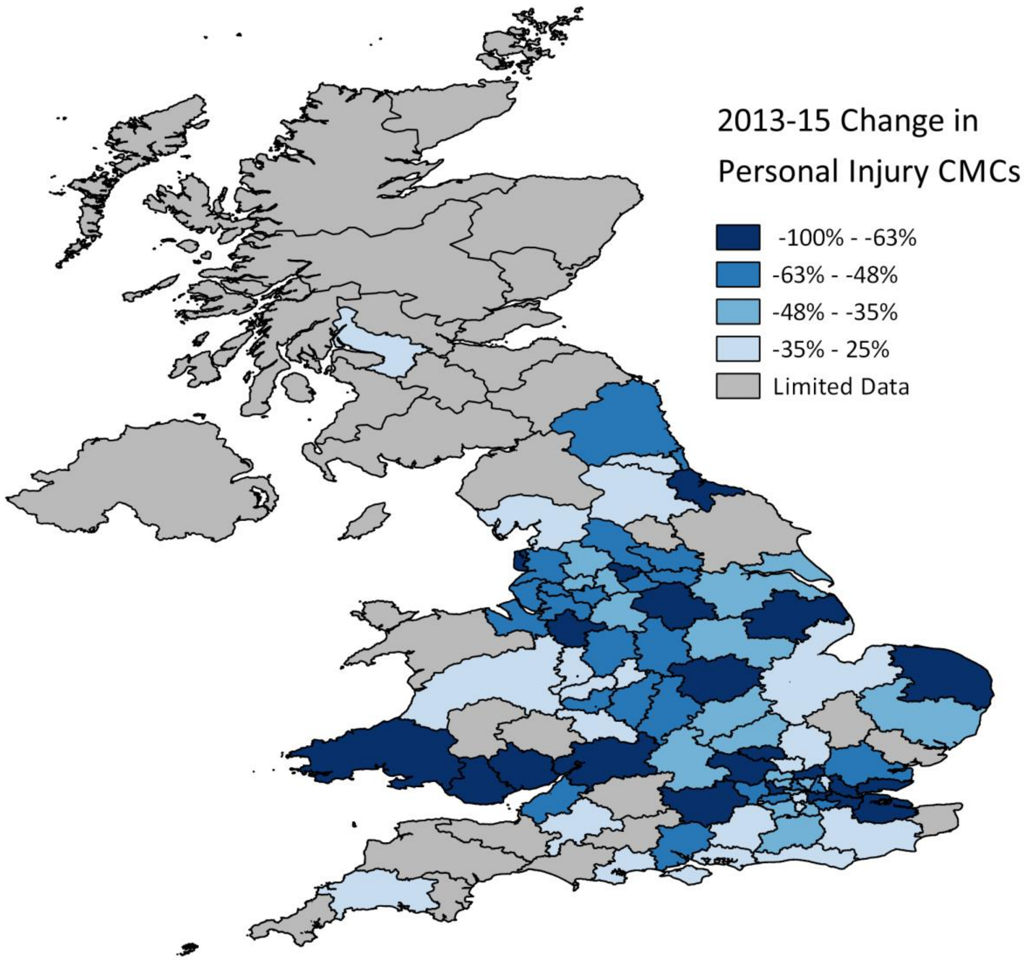
Change in Personal Injury CMCs by postcode area

The graph below shows changes in all postcode areas where more than 3 Personal Injury CMCs were operating in Q1 2013.



Urban areas with higher injury frequencies tend to have seen a bigger % reduction in the number of CMCs. This is probably due a 'lower barrier to entry' in these areas before referral fees were banned and subsequently more consolidation of CMCs.

Appendix 2: supporting background information

Background to the motor insurance industry

Motor insurance offers cover to both personal and commercial customers in the UK and is compulsory in respect of third party property damage and third party bodily injury. For personal lines, this paper focuses on comprehensive cover rather than non-comprehensive cover due to its far larger size.

The motor insurance industry lost money in each of the past four years (as per the FSA/PRA returns based on combined operating ratios). In 2014 there was a loss of 14p for every £1 of premium sold when comparing claims and expenses against premium income, excluding reserve releases (Deloitte Analysis of AM Best data).

Motor premiums rose significantly during 2010 as a consequence of increasing claims costs. However, premiums began to fall from the end of 2011 and continued to decrease sharply until the second half of 2014 when they started to increase again slightly.

There have been many regulatory changes aimed at helping policyholders that have impacted the motor insurance industry in recent years, such as the introduction of the MoJ portal in 2010, the introduction of LASPO in 2013 and most recently the MedCo Portal becoming operational in April 2015. These changes have also helped lead to some of the results discussed in this research. Reforms will continue to be implemented throughout 2015/16. A consultation regarding MedCo is currently being evaluated to assess its initial effectiveness.

Background to the Working Party

The Institute and Faculty of Actuaries commissioned a working party to investigate third party motor insurance based on some worrying inflationary trends being reported by individual insurers.

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